
Department of the Treasury



Fiscal Service, Bureau of the Public Debt

**31 CFR Part 356 - Sale and Issue of Marketable Book-Entry
Treasury Bills, Notes, and Bonds**

**Department of the Treasury Circular,
Public Debt Series No. 1-93**

**As of July 2005
Amendment 1 dated September 30, 2005**

Department of the Treasury



Fiscal Service, Bureau of the Public Debt

Amendments to:

**31 CFR Part 356 - Sale and Issue of
Marketable Book-Entry Treasury Bills,
Notes, and Bonds**

**Department of the Treasury Circular,
Public Debt Series No. 1-93**

**31 CFR Part 357 - Regulations Governing
Book-Entry Treasury Bonds, Notes and Bills
Held in Legacy Treasury Direct®**

**Department of the Treasury Circular,
Public Debt Series No. 2-86**

**31 CFR Part 363
Regulations Governing Securities Held in
TreasuryDirect®**

Amended September 30, 2005

DEPARTMENT OF THE TREASURY**Fiscal Service****31 CFR Parts 356, 357, and 363**

[Docket No. BPD-CC-05-2]

Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds (Department of the Treasury Circular, Public Debt Series No. 1-93); Regulations Governing Book-Entry Treasury Bonds, Notes and Bills Held in Legacy Treasury Direct®; Regulations Governing Securities Held in TreasuryDirect®

AGENCY: Bureau of the Public Debt, Fiscal Service, Treasury.

ACTION: Final rule.

SUMMARY: TreasuryDirect is an account-based, book-entry, online system for purchasing, holding, and conducting transactions in Treasury securities. To date, the system has only been available for the purchase and holding of savings bonds and certificates of indebtedness. The Department of the Treasury (hereinafter referred to as “Treasury” or “We”) is amending Regulations Governing Securities Held in TreasuryDirect to add marketable Treasury securities to the securities that may be purchased and held in TreasuryDirect and to provide the terms and conditions for marketable Treasury securities held in the system. We are amending Regulations Governing Book-Entry Treasury Bonds, Notes and Bills Held in Legacy Treasury Direct to provide for the transfer of securities between Legacy Treasury Direct and TreasuryDirect. We are also amending the Uniform Offering Circular for the Sale and Issue of Marketable Book-Entry Treasury Bills, Notes, and Bonds to make the changes necessary to

accommodate participation in Treasury marketable securities auctions for securities to be held in either the TreasuryDirect or the Legacy Treasury Direct® system. We are also eliminating the ability to bid competitively through Legacy Treasury Direct. These final amendments benefit individual investors by allowing them to purchase, hold and conduct transactions in marketable Treasury securities through the TreasuryDirect system.

DATES: Effective Date: September 30, 2005.

ADDRESSES: You can download this final rule at the following Internet addresses: <http://www.publicdebt.treas.gov> or <http://www.gpoaccess.gov/ecfr>.

FOR FURTHER INFORMATION CONTACT:

Elisha Whipkey, Director, Division of Program Administration, Office of Securities Operations, Bureau of the Public Debt, at (304) 480-6319 or elisha.whipkey@bpd.treas.gov for information on the TreasuryDirect and Legacy Treasury Direct systems.

Chuck Andreatta, Associate Director, Government Securities Regulations Staff, Bureau of the Public Debt, at (202) 504-3632 or govsecreg@bpd.treas.gov for information on Treasury marketable securities auction rules (31 CFR part 356).

Susan Klimas, Attorney-Adviser, Dean Adams, Assistant Chief Counsel, Edward Gronseth, Deputy Chief Counsel, Office of the Chief Counsel, Bureau of the Public Debt, at (304) 480-8692 or susan.klimas@bpd.treas.gov for information on regulations governing TreasuryDirect and Legacy Treasury Direct (31 CFR parts 357 and 363).

SUPPLEMENTARY INFORMATION:

TreasuryDirect® is an account-based, online, book-entry system for purchasing, holding, and conducting transactions in Treasury securities. Currently, book-entry Series EE and Series I savings bonds and certificates of indebtedness are offered for purchase. In addition, definitive savings bonds may be converted to book-entry savings bonds through TreasuryDirect and held in the system. We are issuing this amendment to 31 CFR parts 363, 357, and 356 to provide for the purchase and holding of marketable Treasury securities in TreasuryDirect.

31 CFR Part 363. We are amending 31 CFR part 363, Regulations Governing Securities Held in TreasuryDirect, to add marketable Treasury securities to the securities that may be held in the

TreasuryDirect system.¹ The previous subpart F is redesignated as subpart H, and a new subpart F has been added to address the unique terms and conditions for holding marketable Treasury securities in TreasuryDirect. The provisions in subpart B, which apply to all securities held in TreasuryDirect, will apply to marketable Treasury securities as well. Therefore, the current provisions in subpart B relating to rules of the system, registrations, administrative and judicial proceedings, and decedents' estates, that are applicable to all securities in TreasuryDirect, will apply to marketable Treasury securities.

A TreasuryDirect account owner can submit a noncompetitive bid for eligible marketable Treasury securities online through his or her account. Marketable Treasury securities that are eligible for purchase through a TreasuryDirect account are those that are available for purchase through the TreasuryDirect Web site. Any registration provided in subpart B for securities held in TreasuryDirect is available for marketable Treasury securities.

Upon the purchase of a marketable Treasury security, there will be a period of 45 calendar days after the issue date of the security, or the term of the security, whichever is less, during which the security may not be transferred. This holding period is to prevent a loss to Treasury in the event of a returned or unauthorized debit. In addition, and for a similar reason, we are amending subpart D, relating to certificates of indebtedness, to provide for a holding period of 5 business days after a debit entry for the purchase of a certificate of indebtedness. During this holding period the certificate of indebtedness may only be redeemed to purchase a new security and may not be redeemed for cash.

This final rule provides for the transfer of marketable Treasury securities among the commercial book-entry system, the Legacy Treasury Direct system, and the TreasuryDirect system. Online transfers available for marketable

Treasury securities are transfers between TreasuryDirect accounts, transfers to other book-entry systems, and transfers to our agent for sale on the open market (Sell Direct), in increments of \$1000. Any eligible marketable book-entry Treasury bill, note, or bond may be transferred into and held in a TreasuryDirect account.

Under the provisions of this amendment, an account owner may reinvest a matured security held in TreasuryDirect by directing that the redemption proceeds of the security be used to purchase a certificate of indebtedness, and then using the redemption proceeds of the certificate of indebtedness to purchase a new marketable Treasury security.

The process in TreasuryDirect for handling undeliverable payments of either principal or interest will benefit both investors and Treasury. Undeliverable proceeds will be used to purchase a certificate of indebtedness in the name of the account owner. The account owner can then directly access the certificate of indebtedness online through the account, rather than having to contact Treasury to make arrangements for delivery of the payment.

A four-business day closed book period will be in effect prior to the date a marketable security payment is made. This means that certain transactions made during the closed book period will be delayed until after the closed book period is completed and the payment is made.

31 CFR Part 357. We are amending 31 CFR part 357, Regulations Governing Book-Entry Treasury Bonds, Notes and Bills Held in Legacy Treasury Direct, to provide that marketable Treasury securities may be transferred between Legacy Treasury Direct and TreasuryDirect.

31 CFR Part 356. 31 CFR part 356, also referred to as the Uniform Offering Circular (UOC), sets out the terms and conditions for the sale and issuance to the public of marketable Treasury bills, notes, and bonds. The UOC, in conjunction with offering announcements, represents a comprehensive statement of those terms and conditions.²

This amendment makes changes to the UOC to allow bidders to bid for marketable Treasury securities to be issued in either the TreasuryDirect or

¹ The governing regulations for the TreasuryDirect system, 31 CFR part 363, were originally published as a final rule October 17, 2002 (67 FR 64275). The regulations were subsequently amended May 8, 2003 (68 FR 24793); January 16, 2004 (69 FR 2506); August 16, 2004 (69 FR 50307); March 23, 2005 (70 FR 14940); and September 30, 2005. The TreasuryDirect system was first referred to as New Treasury Direct to distinguish it from an older system for holding book-entry Treasury bills, notes and bonds directly with Treasury, also known as TreasuryDirect. The regulations for the older system are found at 31 CFR part 357. The name of the newer system was changed in the most recent amendment to the TreasuryDirect regulations, and at the same time the name of the older system was changed to Legacy Treasury Direct.

² The Uniform Offering Circular was published as a final rule on January 5, 1993 (58 FR 411). The circular, as amended, is codified at 31 CFR part 356. A final rule converting the UOC to plain language and making certain other minor changes was published in the **Federal Register** on July 28, 2004 (69 FR 45202).

Legacy Treasury Direct direct-holding systems. The amendment accommodates the differences between the systems, such as the methods of payment. The amendment makes one substantive change, described below, which is that competitive bidding will no longer be allowed for securities to be held in Legacy Treasury Direct.

Competitive bidding will not be allowed for securities to be held in either the new TreasuryDirect system or in Legacy Treasury Direct. Although competitive bidding has been allowed since Legacy Treasury Direct was first implemented in 1986, our experience has been that the volume of such bids has been so low that it does not justify continuing to provide the service. Accordingly, § 356.12 has been amended to stipulate that it will not be a feature of either system going forward.

Procedural Requirements

This final rule does not meet the criteria for a "significant regulatory action" as defined in Executive Order 12866. Therefore, a regulatory assessment is not required.

Because this final rule relates to matters of public contract and procedures for United States securities, notice and public procedure and delayed effective date requirements are inapplicable, pursuant to 5 U.S.C. 553(a)(2).

As no notice of proposed rulemaking is required, the Regulatory Flexibility Act (5 U.S.C. 601 et seq.) does not apply.

We ask for no new collections of information in this final rule. Therefore, the Paperwork Reduction Act (44 U.S.C. 3507) does not apply.

List of Subjects

31 CFR Part 356

Bonds, Federal Reserve System, Government securities, Securities.

31 CFR Part 357

Banks, Banking, Bonds, Electronic funds transfers, Government securities, Reporting and recordkeeping requirements.

31 CFR Part 363

Bonds, Electronic funds transfer, Federal Reserve system, Government securities, Securities.

■ Accordingly, for the reasons set out in the preamble, 31 CFR chapter II, subchapter B, is amended as follows:

PART 356—SALE AND ISSUE OF MARKETABLE BOOK-ENTRY TREASURY BILLS, NOTES AND BONDS (DEPARTMENT OF THE TREASURY CIRCULAR, PUBLIC DEBT SERIES NO. 1–93)

■ 1. The authority citation for part 356 continues to read as follows:

Authority: 5 U.S.C. 301; 31 U.S.C. 3102 et seq.; 12 U.S.C. 391.

■ 2. Amend part 356 by revising "TreasuryDirect" or "Legacy Treasury Direct" to read "TreasuryDirect®" or "Legacy Treasury Direct®" the first time they appear in each section or section heading in the part.

■ 3. Section 356.2 is amended by revising the definitions of "Autocharge agreement," "Book-entry security," "Security" and "TreasuryDirect," and by adding in alphabetical order the definitions of "Certificate of indebtedness" and "Legacy Treasury Direct" to read as follows:

§ 356.2 What definitions do I need to know to understand this part?

* * * * *

Autocharge agreement means an agreement in a format acceptable to Treasury between a submitter or clearing corporation and a depository institution that authorizes us to:

- (1) Deliver awarded securities to:
 - (i) The book-entry securities account of a designated depository institution in the commercial book-entry system, or
 - (ii) An account in Legacy Treasury Direct, and
- (2) Charge a funds account of a designated depository institution for the settlement amount of the securities.

* * * * *

Book-entry security means a security that is issued and maintained as an accounting entry or electronic record in either the commercial book-entry system or in one of Treasury's two direct-hold systems—TreasuryDirect or Legacy Treasury Direct. (See § 356.4.)

* * * * *

Certificate of indebtedness means a one-day non-interest-bearing security that may be held in TreasuryDirect and that automatically matures and is rolled over each day until its owner requests that it be redeemed.

* * * * *

Legacy Treasury Direct means a non-Internet-based book-entry system maintained by Treasury for purchasing and holding marketable Treasury securities directly with Treasury. (See 31 CFR part 357.)

* * * * *

Security means a Treasury bill, note, or bond, each as described in this part.

Security also means any other obligation we issue that is subject to this part according to its auction announcement. Security includes an interest or principal component under the STRIPS program, as well as a certificate of indebtedness in an investor's TreasuryDirect account.

* * * * *

TreasuryDirect means the book-entry, online system maintained by Treasury for purchasing and holding marketable Treasury securities, nonmarketable savings bonds, and certificates of indebtedness directly with Treasury. (See 31 CFR part 363.)

* * * * *

■ 4. Section 356.4 is amended by revising the introductory text and paragraph (b), and by adding a new paragraph (c) to read as follows:

§ 356.4 What are the book-entry systems in which auctioned Treasury securities may be issued?

There are three book-entry securities systems—the commercial book-entry system, TreasuryDirect, and Legacy Treasury Direct—into which we issue marketable Treasury securities. We maintain and transfer securities in these three book-entry systems at their par amount. Par amounts of Treasury inflation-protected securities do not include adjustments for inflation. Securities may be transferred from one system to the other. See Department of the Treasury Circular, Public Debt Series No. 2–86, as amended (31 CFR part 357) and 31 CFR part 363.

* * * * *

(b) *TreasuryDirect*. In this system, account holders maintain accounts in a book-entry, online system directly on the records of the Bureau of the Public Debt, Department of the Treasury. Bids for securities to be held in TreasuryDirect are submitted through the Internet.

(c) *Legacy Treasury Direct*. In this system, we maintain the book-entry securities of account holders directly on the records of the Bureau of the Public Debt, Department of the Treasury. Bids for securities to be held in Legacy Treasury Direct are generally submitted directly to us, although such bids may also be forwarded to us by a depository institution or dealer.

■ 5. Section 356.5 is amended by revising the introductory text to read as follows:

§ 356.5 What types of securities does the Treasury auction?

We offer securities under this part exclusively in book-entry form and as direct obligations of the United States

issued under Chapter 31 of Title 31 of the United States Code. The securities are subject to the terms and conditions in this part, the regulations in 31 CFR part 363 (for securities held in TreasuryDirect), the regulations in 31 CFR part 357 (for securities held in the commercial book-entry system and Legacy Treasury Direct), and the auction announcements. When we issue additional securities with the same CUSIP number as outstanding securities, we consider them to be the same securities as the outstanding securities.

* * * * *

■ 6. Section 356.11 is amended by revising the first sentence of paragraph (a)(1), by revising paragraph (c), and by adding a new paragraph (d) to read as follows:

§ 356.11 How are bids submitted in an auction?

(a) *General.* (1) All bids must be submitted using an approved method, which depends on whether you are requesting us to issue the awarded securities in the commercial book-entry system, in TreasuryDirect, or in Legacy Treasury Direct (See § 356.4). * * *

* * * * *

(c) *TreasuryDirect.* You must submit your bids through your established book-entry, online TreasuryDirect account. You may reinvest the proceeds of maturing securities held in TreasuryDirect by directing that the proceeds be used to purchase a certificate of indebtedness in your TreasuryDirect account and by using the proceeds of your certificate of indebtedness to pay for the securities.

(d) *Legacy Treasury Direct.* (1) If you are a submitter and the awarded securities are to be issued in Legacy Treasury Direct, you may submit bids by using one of our approved methods, *e.g.*, computer, automated telephone service, or paper forms. You may also reinvest the proceeds of maturing securities into new securities through the same methods.

(2) If you are submitting bids by paper form, you must use forms authorized by the Bureau of the Public Debt and provide the requested information. We have the option of accepting or rejecting bids on any other form. You are responsible for ensuring that we receive bids in paper form on time. A noncompetitive bid is on time if:

(i) We receive it on or before the issue date, and

(ii) The envelope it arrived in bears evidence, such as a U.S. Postal Service cancellation, that it was mailed prior to the auction date.

(3) If you are submitting a bid by computer or automated telephone service you must be an established Legacy Treasury Direct account holder with a Taxpayer Identification Number.

(4) In contingency situations, such as a power outage, we may accept bids by other means, provided, that in all cases the bids are submitted prior to the relevant bidding deadline by an established Legacy Treasury Direct account holder.

■ 7. Section 356.12 is amended by revising paragraphs (b)(1) and (c)(3) to read as follows:

§ 356.12 What are the different types of bids and do they have specific requirements or restrictions?

* * * * *

(b) *Noncompetitive bids.* (1) *Maximum bid.* You may not bid noncompetitively for more than \$5 million. The maximum bid limitation does not apply if you are bidding solely through either a TreasuryDirect or a Legacy Treasury Direct reinvestment request. A request for reinvestment of securities maturing in either TreasuryDirect or Legacy Treasury Direct is a noncompetitive bid.

* * * * *

(c) * * *
(3) *Additional restrictions.* You may not bid competitively in an auction in which you are bidding noncompetitively. You may not bid competitively for securities to be bought through either TreasuryDirect or Legacy Treasury Direct.

■ 8. Section 356.17 is amended by redesignating paragraphs (b) and (c) as paragraphs (c) and (d), respectively, adding new paragraph (b) and revising newly redesignated paragraphs (c) and (d) to read as follows:

§ 356.17 How and when do I pay for securities awarded in an auction?

* * * * *

(b) *TreasuryDirect.* You must pay for your awarded securities by a debit entry to a deposit account that you are authorized to debit or by using the redemption proceeds of your certificate of indebtedness held in your TreasuryDirect account. Payment by debit entry occurs on the settlement date for the actual settlement amount due. (See § 356.25.)

(c) *Legacy Treasury Direct.* Unless you make other provisions, you must pay by debit entry to a deposit account that you are authorized to debit or submit payment with your bids. Payment by debit entry occurs on the settlement date for the actual settlement amount due. (See § 356.25.) If you are paying with a check or with maturing

securities, you must pay separately for any premium, accrued interest, or inflation adjustment as soon as you receive your Payment Due Notice.

(1) *Bidding and payment by computer or by telephone.* If you are bidding by computer or by telephone, you must pay for any securities awarded to you by debit entry to a deposit account. If a depository institution or dealer is submitting your bids for securities to be held in Legacy Treasury Direct, payment may be either by debit entry to a deposit account or by allowing us to charge the Federal Reserve Bank funds account of a depository institution.

(2) *Bidding and payment by paper form.* If you are mailing bids to us on a paper form, you may either enclose your payment with the form or pay for any securities awarded to you by debit entry to a deposit account. For bills, you may pay by depository institution (cashier's or teller's) check, certified check, or currently dated Treasury or fiscal agency check made payable to you. For notes or bonds, in addition to the payment options for bills, you may also pay by personal check. If you submit a personal check, make it payable to Legacy Treasury Direct and mail it with the bid to the Federal Reserve Bank handling your account. In your payment amount you must include the par amount and any announced accrued interest and/or inflation adjustment.

(3) *Payment by maturing securities.* You may use maturing securities held in Legacy Treasury Direct as payment for reinvestments into new securities that we are offering, as long as we receive the appropriate transaction request on time.

(d) *Commercial book-entry system.* Unless you make other provisions, payment of the settlement amount must be by charge to the funds account of a depository institution at a Federal Reserve Bank.

■ 9. Section 356.22 is amended by revising paragraph (a) to read as follows:

§ 356.22 Does the Treasury have any limitations on auction awards?

(a) *Awards to noncompetitive bidders.* The maximum award to any noncompetitive bidder is \$5 million. This limit does not apply to bidders bidding solely through TreasuryDirect or Legacy Treasury Direct reinvestment requests.

* * * * *

■ 10. Section 356.25 is amended by revising paragraphs (a) and (b), redesignating paragraph (c) as paragraph (d), adding a new paragraph (c), and revising newly redesignated paragraph (d) to read as follows:

§ 356.25 How does the settlement process work?

* * * *

(a) *Payment by debit entry to a deposit account.* If you are paying by debit entry to a deposit account as provided for in § 356.17 (b) and (c), we will charge the settlement amount to the specified account on the issue date.

(b) *Payment by authorized charge to a funds account.* Where the submitter's method of payment is an authorized charge to the funds account of a depository institution as provided for in § 356.17 (c)(1) and (d), we will charge the settlement amount to the specified funds account on the issue date.

(c) *Payment through a certificate of indebtedness.* If you are paying with the redemption proceeds of your certificate of indebtedness as provided for in § 356.17(b), we will redeem the certificate of indebtedness for the settlement amount of the security and apply the proceeds on the issue date.

(d) *Payment with bids.* If you paid the par amount with your bids as provided for in § 356.17 (c)(2), you may have to pay an additional amount, or we may have to pay an amount to you, as follows:

(1) *When we owe an amount to you.* If the amount you paid is more than the settlement amount, we will refund the balance to you after the auction. This will generally occur if you submit payment with your bids. A typical example would be an auction where the price is a discount from par and there is no accrued interest.

(2) *When you must remit an additional amount.* If the settlement amount is more than the amount you paid, we will notify you of the additional amount due. You may owe us such an additional amount if the auction calculations result in a premium or if accrued interest or an inflation adjustment is due. If your securities are to be held in TreasuryDirect, we will collect this amount through the same payment method that you previously authorized for the transaction. If your securities are to be held in Legacy Treasury Direct, you will be responsible for remitting this additional amount immediately.

■ 11. Section 356.30 is amended by redesignating current paragraph (c)(2) as paragraph (c)(3) and by adding a new paragraph (c)(2) and revising newly redesignated paragraph (c)(3) to read as follows:

§ 356.30 When does the Treasury pay principal and interest on securities?

* * * *

(c) * * *

(2) *TreasuryDirect.* We discharge our payment obligations when we make payment to a depository institution for credit to the account specified by the owner of the security, when we make payment for a certificate of indebtedness to be issued and held in the owner's account, or when we make payment according to the instructions of the security's owner or the owner's legal representative.

(3) *Legacy Treasury Direct.* We discharge our payment obligations when we make payment to a depository institution for credit to the account specified by the owner of the security, or when we make payment according to the instructions of the security's owner or the owner's legal representative.

PART 357—REGULATIONS GOVERNING BOOK-ENTRY TREASURY BONDS, NOTES AND BILLS HELD IN LEGACY TREASURY DIRECT®

■ 12. The authority citation for part 357 continues to read as follows:

Authority: 31 U.S.C. chapter 31; 12 U.S.C. 391; 5 U.S.C. 301.

■ 13. Amend part 357 by revising "TreasuryDirect" or "Legacy Treasury Direct" to read "TreasuryDirect®" or "Legacy Treasury Direct®" the first time they appear in each section or section heading in the part.

■ 14. Amend 357.0 by revising paragraph (a) to read as follows:

§ 357.0 Book-entry systems.

(a) *Treasury securities.* Treasury securities are maintained in one of the following book-entry systems:

(1) *Commercial book-entry system.* The commercial book-entry system is the book-entry system in which Treasury securities are held in a tiered system through securities intermediaries such as financial institutions or brokerage firms. A Treasury security is maintained in the commercial book-entry system if it is credited by a Federal Reserve Bank to a Participant's Securities Account. The regulations governing the commercial book-entry system are found at subpart B of this part, and are referred to as Treasury/ Reserve Automated Debt Entry System (TRADES).

(2) *Legacy Treasury Direct.* The Legacy Treasury Direct system is a non-Internet-based book-entry system maintained by Treasury for purchasing and holding marketable Treasury securities as book-entry products. A Treasury security is maintained in Legacy Treasury Direct if it is credited to a Legacy Treasury Direct account as

described in § 357.20 of this part. Treasury securities are held directly by the Department of the Treasury in accounts maintained in the investor's name. A Legacy Treasury Direct account may be accessed through a designated Federal Reserve Bank or the Bureau of the Public Debt. See subpart C of this part for rules pertaining to Legacy Treasury Direct.

(3) *TreasuryDirect.* TreasuryDirect is a book-entry, online system maintained by the Department of the Treasury for purchasing and holding eligible marketable Treasury securities, United States Savings Bonds, and certificates of indebtedness in electronic form as a computer record on the books of Treasury. The regulations governing TreasuryDirect are found at 31 CFR part 363.

* * * *

■ 15. Amend § 357.2 by revising the definitions of "Book-entry security" and "Original issue," in alphabetical order, to read as follows:

§ 357.2 Definitions.

* * * *

Book-entry security means a Treasury security maintained as a computer record in the commercial book-entry system, Legacy Treasury Direct, or TreasuryDirect.

* * * *

Original issue means Treasury's offering of a marketable Treasury security to the public and its issuance in book-entry form to be maintained in the commercial book-entry system, Legacy Treasury Direct, or TreasuryDirect.

* * * *

■ 16. Amend § 357.22 by revising the second sentence in paragraph (a), the fourth sentence in paragraph (a), the first sentence of paragraph (a)(1), and paragraph (a)(3) to read as follows:

§ 357.22 Transfers.

(a) *General.* * * * A security may be transferred among accounts in Legacy Treasury Direct, the commercial book-entry system, and TreasuryDirect. * * * The Department may delay transfer of a newly purchased security from a Legacy Treasury Direct account to an account in commercial book entry or TreasuryDirect for a period not to exceed (30) calendar days from the date of issue.

(1) *Identification of securities to be transferred.* The owner must identify the securities to be transferred, in the manner required by the transaction request. * * *

* * * *

(3) *When transfer effective.*

(i) *Transfer within Legacy Treasury Direct or to Legacy Treasury Direct from the commercial book-entry system or TreasuryDirect.* A transfer of a security within Legacy Treasury Direct, or to Legacy Treasury Direct from another book-entry system, is effective when an appropriate entry is made in the name of the transferee on the Legacy Treasury Direct records.

(ii) *Transfer from Legacy Treasury Direct to the commercial book-entry system.* A transfer of a security from Legacy Treasury Direct to the commercial book-entry system is effective as provided in Subpart B. If a transfer cannot be completed, and the security is sent back to Legacy Treasury Direct, the Department will redeposit the security in the original account.

(iii) *Transfer from Legacy Treasury Direct to TreasuryDirect.* A transfer of a security from Legacy Treasury Direct to TreasuryDirect is effective as provided in 31 CFR part 363. If the transfer cannot be completed, the Department will redeposit the security in the original account.

* * * * *

PART 363—REGULATIONS GOVERNING SECURITIES HELD IN TREASURYDIRECT

■ 17. The authority citation for part 363 continues to read as follows:

Authority: 5 U.S.C. 301; 12 U.S.C. 391; 31 U.S.C. 3102, *et seq.*; 31 U.S.C. 3121, *et seq.*

■ 18. Amend part 363 by revising “TreasuryDirect” or “Legacy Treasury Direct” to read “TreasuryDirect®” or “Legacy Treasury Direct®” the first time they appear in each section or section heading in the part.

§ 363.3 [Removed and reserved]

■ 19. Remove and reserve § 363.3.

■ 20. Revise § 363.4 to read as follows:

§ 363.4 How is TreasuryDirect different from the Legacy Treasury Direct system and the commercial book-entry system?

(a) *TreasuryDirect.* TreasuryDirect is a book-entry, online system maintained by Treasury for purchasing, holding and conducting permitted transactions in eligible Treasury securities in electronic form as a computer record on the books of Treasury. TreasuryDirect currently provides for the purchase and holding of eligible book-entry savings bonds, certificates of indebtedness, and eligible marketable Treasury securities.

(b) *Legacy Treasury Direct.* The Legacy Treasury Direct system is a non-Internet-based book-entry system maintained by Treasury for purchasing, holding, and conducting permitted

transactions in eligible marketable Treasury securities as book-entry products. The terms and conditions for the Legacy Treasury Direct system are found at 31 CFR part 357, subpart C.

(c) *Commercial book-entry system.* The commercial book-entry system is the book-entry system in which Treasury securities are held in a tiered system through securities intermediaries such as financial institutions or brokerage firms. The regulations governing the commercial book-entry system are found at 31 CFR part 357, subpart B, and may be referred to in that part as Treasury/Reserve Automated Debt Entry System (TRADES).

■ 21. Amend § 363.5 by redesignating paragraphs (a) and (b) as paragraphs (b) and (c), adding paragraph (a), and revising the newly redesignated paragraph (c), to read as follows:

§ 363.5 How do I contact Public Debt?

(a) You may use the “Contact Us” feature within TreasuryDirect to communicate information to us over a secure Internet connection.

* * * * *

(c) Letters should be addressed to: Bureau of the Public Debt, TreasuryDirect, P.O. Box 5312, Parkersburg, WV 26106–5312.

■ 22. Amend § 363.6 by removing the definition of “Depository financial institution,” adding the definitions of “Commercial book-entry system,” “Financial institution,” “Legacy Treasury Direct system,” “Marketable Treasury security,” “Sell Direct,” and “Tender” in alphabetical order and revising the definition of “Certificate of Indebtedness” and “Transfer,” to read as follows:

§ 363.6 What special terms do I need to know to understand this part?

* * * * *

Certificate of Indebtedness is a one-day non-interest-bearing security held within your primary or linked account, including a minor account for which you are the custodian, that automatically matures and is rolled over each day until you request that it be redeemed.

Commercial book-entry system refers to the book-entry system in which you hold your Treasury securities in a tiered system through securities intermediaries such as financial institutions or brokerage firms. (See § 363.4.)

* * * * *

Financial institution, or depository financial institution, means an entity described in 12 U.S.C. 461 (b)(1)(A)(i)–(vi).

* * * * *

Legacy Treasury Direct system is a non-Internet-based book-entry system maintained by Treasury since 1986 for purchasing and holding marketable Treasury securities directly with Treasury as book-entry products. (See § 363.4.)

* * * * *

Marketable Treasury security refers to a Treasury bill, note, or bond that is negotiable and transferable, that is, may be bought and sold in the secondary market.

* * * * *

Sell Direct® is a service in which Treasury, through our agent, will sell your marketable Treasury security held in TreasuryDirect or Legacy Treasury Direct on the open market for a fee.

* * * * *

Tender means an offer, or bid, to purchase a marketable Treasury security.

* * * * *

Transfer is a transaction to move a security, or a portion of a security, from one account to another within TreasuryDirect, or to move a marketable Treasury security to or from a TreasuryDirect account and an account in Legacy Treasury Direct or the commercial book-entry system.

* * * * *

■ 23. Amend § 363.10 by revising the heading, paragraph (a)(2), and the last sentence of paragraph (b)(1) to read as follows:

§ 363.10 What is a TreasuryDirect account?

* * * * *

(a) * * *

(2) Gifts of savings bonds that have not yet been delivered;

* * * * *

(b) * * *

(1) * * * You may also buy and deliver gift savings bonds from your custom account.

* * * * *

■ 24. Amend § 363.21 by revising the heading, and paragraphs (a), (b), (c), (d), and (e) to read as follows:

§ 363.21 What transactions can I perform online through my TreasuryDirect account?

* * * * *

(a) You can purchase, transfer, and change the registration of an eligible Treasury security, including a transfer of a marketable security for a Sell Direct transaction;

(b) You can redeem a savings bond;

(c) You can deliver a gift savings bond to the account of the recipient;

(d) You can grant and revoke the right to view an eligible security to a

secondary owner or beneficiary named on the security, if the secondary owner or beneficiary is a TreasuryDirect account owner;

(e) You, as the primary owner, can grant certain transaction rights to the secondary owner, and you can also revoke those rights. The secondary owner can exercise those rights, provided they have not been revoked, if the secondary owner is a TreasuryDirect account owner;

* * * * *

■ 25. Amend § 363.22 by revising paragraph (c) to read as follows:

§ 363.22 Who has the right to conduct online transactions in book-entry securities?

* * * * *

(c) *Primary owner with secondary owner form of registration.* (1) The primary owner can conduct any permitted transaction in a security held in the primary owner's TreasuryDirect account. (See § 363.20(e)).

(2) If the primary owner has given the secondary owner the right to conduct transactions in a security, and has not revoked that right, then the secondary owner can conduct transactions in the security. Transactions that may be conducted by the secondary owner include transferring a marketable security, including a transfer for a Sell Direct transaction, redeeming a savings bond, and changing the destination of interest and redemption payments for marketable securities.

* * * * *

■ 26. Amend § 363.26 by revising paragraph (a) and adding paragraph (c), to read as follows:

§ 363.26 What is a transfer?

(a) A transfer is a transaction to:

(1) Move a Treasury security, or a portion of a Treasury security, from one account to another within TreasuryDirect ;

(2) Move a marketable Treasury security to or from a TreasuryDirect account and an account in Legacy Treasury Direct or the commercial book-entry system.

* * * * *

(c) *Gift delivery is not a transfer.* A transfer does not include delivery of a gift savings bond from the donor to the recipient. This is referred to as a delivery.

■ 27. Amend § 363.27 by:

■ a. Redesignating paragraphs (a) through (f) as paragraphs (b) through (g);

■ b. Adding a new paragraph (a) to read as set forth below; and

■ c. Revising the first sentence of the newly redesignated paragraph (e)(2),

and revising the newly redesignated paragraphs (e)(3), (e)(4), (e)(6), and (e)(7), to read as follows:

§ 363.27 What do I need to know about accounts for minors who have not had a legal guardian appointed by a court?

(a) We do not permit a minor to purchase securities.

* * * * *

(e) * * *

(2) The custodian may redeem savings bonds on behalf of the minor through the minor's account. * * *

(3) The custodian may not purchase gift savings bonds from the minor's account.

(4) The custodian may transfer a security to another TreasuryDirect account, provided the account is a linked account bearing the name and taxpayer identification number of the minor. The custodian can transfer a marketable Treasury security to an account in Legacy Treasury Direct or the commercial book-entry system, and may request a Sell Direct transaction.

* * * * *

(6) Gift savings bonds may be delivered to the minor's account.

(7) The custodian may grant rights to view and conduct transactions in the security as may be permitted by § 363.22.

* * * * *

■ 28. Revise §§ 363.36, 363.37, and 363.38 to read as follows:

§ 363.36 What securities can I purchase and hold in my TreasuryDirect account?

You can purchase and hold eligible Treasury securities in your account. Eligible securities are Series EE and Series I savings bonds, certificates of indebtedness, and marketable Treasury securities that are available for purchase through the TreasuryDirect Web site. In addition, you can hold converted savings bonds and eligible marketable Treasury securities that have been transferred from the Legacy Treasury Direct system or the commercial book-entry system.

§ 363.37 How do I purchase and make payment for eligible Treasury securities through my TreasuryDirect account?

(a) *Online purchase.* Purchases of eligible Treasury securities through your TreasuryDirect account must be made online.

(b) *Payment for savings bonds and marketable Treasury securities.* You can pay for eligible savings bonds and marketable Treasury securities by either a debit to your designated account at a United States financial institution using the ACH method, or by using the

redemption proceeds of your certificate of indebtedness.

(c) *Payment for certificate of indebtedness.* You can pay for a certificate of indebtedness by a direct deposit from your financial institution or employer to your TreasuryDirect account using the ACH method; by a debit from your designated account at a financial institution using the ACH method, but the amount of the debit is limited to \$1000 or less; or by using the proceeds of maturing securities held in your Treasury Direct account.

§ 363.38 What happens if my financial institution returns an ACH debit?

If your designated financial institution returns an ACH debit, we reserve the right to reinitiate the debit at our option. We also reserve the right to reverse the transaction, thereby removing the security from your TreasuryDirect account. If the ACH return occurs after the security has been redeemed, transferred, or has matured and the proceeds paid, we reserve the right to reverse previously processed security transactions. We are not responsible for any fees your financial institution may charge relating to returned ACH debits.

■ 29. Revise § 363.40 to read as follows:

§ 363.40 How are payments of principal and interest made?

(a) *Payment of a savings bond that has reached final maturity.* We will purchase a certificate of indebtedness in your TreasuryDirect account using the proceeds of a matured savings bond.

(b) *Payments of interest and principal (except a savings bond that has reached final maturity).* (1) We provide two methods of receiving payments of principal and interest:

(i) Payment to your account at a financial institution by the ACH method, or

(ii) Payment to your TreasuryDirect account to purchase a certificate of indebtedness.

(2) You may select different payment destinations for principal and interest for a marketable Treasury security. You may change your payment destination at any time, unless the security is in the closed book period. (See § 363.210.)

(3) If we are unable to deliver a payment, we will use the payment to purchase a certificate of indebtedness in your TreasuryDirect account.

■ 30. Amend § 363.44 by revising paragraph (a)(1) to read as follows:

§ 363.44 What happens when a TreasuryDirect account owner dies and the estate is entitled to securities held in the account?

(a) *Estate is being administered.* (1) For an estate that is being administered, the legal representative of the estate may request payment of securities, if the securities are eligible for payment, to the estate or to the persons entitled, or may:

(i) Request transfer of securities to the TreasuryDirect account of the persons entitled, if the securities are eligible for transfer;

(ii) Request transfer of marketable Treasury securities to the commercial book-entry system; or

(iii) Request a Sell Direct transaction.

* * * * *

§§ 363.80–363.81 [Removed and reserved]

■ 31. Remove and reserve § 363.80 and § 363.81.

§ 363.82 [Redesignated]

■ 32. Redesignate § 363.82 as § 363.101.

§ 363.82 [Added and reserved]

■ 32a. Add and reserve new § 363.82.

■ 33. Add § 363.100 to read as follows:

§ 363.100 What are the rules for purchasing and delivering gift savings bonds to minors?

(a) A TreasuryDirect account owner can purchase a savings bond as a gift with a minor as the recipient.

(b) An account owner can deliver a bond purchased as a gift to a minor. The account owner must deliver the security to the minor's linked account. Once delivered, the bond will be under the control of the custodian of the minor's account. (See § 363.27.)

■ 34. Revise the newly redesignated § 363.101 to read as follows:

§ 363.101 Can an account owner transfer a book-entry savings bond to a minor?

An account owner can transfer a book-entry savings bond held in TreasuryDirect to a minor as a gift or pursuant to one of the specified exceptions in § 363.55(a).

■ 35. Amend § 363.138 by revising paragraph (c) to read as follows:

§ 363.138 How do I purchase a certificate of indebtedness?

* * * * *

(c) through the Buy Direct® function of your TreasuryDirect account, in which you direct us to debit funds from your account at a financial institution to purchase a certificate of indebtedness. This method is limited to an amount no greater than \$1000 per transaction. When you use the Buy Direct function

to debit funds to purchase all or a portion of a certificate of indebtedness, you will not be permitted to schedule a redemption for cash from your certificate of indebtedness within five business days after the date of the debit entry; or

* * * * *

■ 36. Revise § 363.142 to read as follows:

§ 363.142 Can I redeem my certificate of indebtedness for cash?

You can redeem part or all of the value of your certificate of indebtedness at any time, with one exception: if you purchased all or a portion of your certificate of indebtedness through a debit using the ACH method, you may not schedule a redemption from your certificate of indebtedness within five business days after the date of the debit entry.

■ 37. Redesignate Subpart F as Subpart H.

■ 38. Redesignate § 363.200 through § 363.202 as § 363.250 through § 363.252.

■ 39. Add a new subpart F to read as follows:

Subpart F—Marketable Treasury Securities
Sec.

363.200 What Treasury securities does this subpart govern?

363.201 What other regulations govern book-entry marketable book-entry Treasury bills, notes, and bonds?

363.202 What marketable Treasury securities may I purchase and hold through my TreasuryDirect account?

363.203 After I purchase my marketable Treasury security in TreasuryDirect, is there a period of time during which I may not transfer the security?

363.204 What registrations are available for my marketable Treasury securities held in TreasuryDirect?

363.205 How do I reinvest the proceeds of a maturing security held in TreasuryDirect?

363.206 How can I transfer my marketable Treasury security into my TreasuryDirect account from another book-entry system?

363.207 Can I transfer my marketable Treasury security from my TreasuryDirect account to another TreasuryDirect account?

363.208 Can I transfer my marketable Treasury security from my TreasuryDirect account to an account in another book-entry system?

363.209 How can I direct that my marketable Treasury security be sold on the open market (Sell Direct®)?

363.210 Is there any period of time during which I will be unable to process certain transactions regarding my security?

363.211–363.249 [Reserved]

Subpart F—Marketable Treasury Securities

§ 363.200 What Treasury securities does this subpart govern?

This subpart provides the rules for holding marketable Treasury bills, notes, and bonds in book-entry form in TreasuryDirect.

§ 363.201 What other regulations govern book-entry marketable book-entry Treasury bills, notes, and bonds?

(a) 31 CFR part 356 governs the sale and issue of marketable book-entry Treasury securities on or after March 1, 1993, whether held in TreasuryDirect, Legacy Treasury Direct, or the commercial book-entry system.

(b) 31 CFR part 357 governs holding marketable book-entry Treasury bills, notes, and bonds in the Legacy Treasury Direct system and in the commercial book-entry system.

§ 363.202 What marketable Treasury securities may I purchase and hold through my TreasuryDirect account?

(a) *Purchase.* You may purchase any marketable Treasury security that is available for purchase through the TreasuryDirect Web site.

(b) *Hold.* You may transfer into the system and maintain in your TreasuryDirect account any eligible marketable book-entry Treasury bill, note, or bond.

§ 363.203 After I purchase my marketable Treasury security in TreasuryDirect, is there a period of time during which I may not transfer the security?

Once you purchase a marketable Treasury security in TreasuryDirect, you may not transfer that security for a period of 45 calendar days after the issue date of the security, or the term of the security, whichever is less.

§ 363.204 What registrations are available for my marketable Treasury securities held in TreasuryDirect?

You may register your marketable Treasury securities in any form of registration permitted by § 363.20 of this part.

§ 363.205 How do I reinvest the proceeds of a maturing security held in TreasuryDirect?

You can reinvest the proceeds of a maturing security held in TreasuryDirect by first directing that the proceeds from the maturing security be used to purchase a certificate of indebtedness in your account, and then using the redemption proceeds of your certificate of indebtedness to purchase another security. Any purchase using the proceeds from a certificate of indebtedness is considered a reinvestment.

§ 363.206 How can I transfer my marketable Treasury security into my TreasuryDirect account from another book-entry system?

(a) *Legacy Treasury Direct to TreasuryDirect.* 31 CFR part 357, subpart C, governs the transfer of a marketable book-entry Treasury security from your Legacy Treasury Direct account into TreasuryDirect.

(b) *Commercial book-entry system to TreasuryDirect.* You may transfer your marketable Treasury security from the commercial book-entry system by contacting the financial institution or broker that handles your commercial book-entry account.

(c) *Form of registration upon transfer to TreasuryDirect.* When your security is transferred into your TreasuryDirect account, it will be transferred into your account in your name in the sole owner form of registration, regardless of the form of registration prior to the transfer. After the transfer is completed, you can change the registration to any form of registration permitted by § 363.20.

(d) *Amounts transferred.* You can only transfer in increments of \$1000.

§ 363.207 Can I transfer my marketable Treasury security from my TreasuryDirect account to another TreasuryDirect account?

After the initial 45-calendar day holding period for your marketable Treasury security (see § 363.203) you can transfer your security to another TreasuryDirect account in increments of \$1000.

§ 363.208 Can I transfer my marketable Treasury security from my TreasuryDirect account to an account in another book-entry system?

After the initial 45-calendar day holding period for your marketable Treasury security (see § 363.203) you can transfer your security to an account in Legacy Treasury Direct or to an account in the commercial book-entry system in increments of \$1000.

§ 363.209 How can I direct that my marketable Treasury security be sold on the open market (Sell Direct®)?

(a) *Sell Direct.* We offer a service, referred to as Sell Direct, in which we will sell your marketable Treasury security for you on the open market at your request. We will transfer your security to an account in the commercial book-entry system maintained by our agent, and will sell the security on your behalf. By authorizing the transfer and sale of the security, you agree to accept the price received by our agent. If our agent is unable to obtain at least one price quote for the security, the security will be returned to your TreasuryDirect account.

(b) *Fee.* We charge a fee for each security sold on your behalf. By authorizing the sale of the security, you authorize our agent to deduct the fee from the proceeds of the sale. If our agent is unable to complete the sale, no fee will be charged. The amount of the fee is published in the **Federal Register**.

(c) *Definitions.* The following definitions will help you understand this section and the confirmation that you will receive after the sale is completed.

(1) The *trade date* is the date that your security is sold.

(2) A *security*, for the purpose of this section, is any amount represented by a separate CUSIP number (see definition of CUSIP in 31 CFR part 356).

(3) The *settlement date* is the date that the proceeds of the sale are released to the financial institution that you designated to receive the proceeds.

(4) The *yield to maturity*, or *yield*, is the annualized rate of return to maturity on a fixed principal security expressed as a percentage. For an inflation-indexed security, yield means real yield, as defined in 31 CFR part 356.

(d) On the settlement date, our agent will release the settlement proceeds,

less the fee, to the account at the financial institution that you designated.

(e) When the transaction is complete, our agent will send you a confirmation. The confirmation will include the price, trade date, settlement date, settlement amount or net amount, transaction fee, and yield to maturity.

(f) We are not liable for changes in market conditions affecting the price received for the security, or for any loss that you may incur as a result of the sale or the inability of our agent to complete the sale.

(g) We reserve the right to terminate the Sell Direct® service at any time.

§ 363.210 Is there any period of time during which I will be unable to process certain transactions regarding my security?

A closed book period will be in effect for four business days prior to the date a marketable security interest or redemption payment is made. This means that certain transactions made during the closed book period will be delayed until after the closed book period is completed and the payment is made. You will be unable to transfer the security, change the payment destination, change the registration of the security, or use Treasury's Sell Direct® service during this closed book period.

§§ 363.211–363.249 [Added and reserved]

■ 40. Add and reserve §§363.211 through 363.249 in subpart F.

Subpart G—[Added and reserved]

■ 41. Add and reserve Subpart G.

Dated: September 26, 2005.

Donald V. Hammond,

Fiscal Assistant Secretary.

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(As of July 2005)

31 CFR Part 356

Sale and Issue of Marketable Book-Entry Treasury Bills, Notes and Bonds

*Department of the Treasury Circular,
Public Debt Series No. 1-93*

31 CFR Ch. II (7–1–05 Edition)

356.17 How and when do I pay for securities awarded in an auction?

Subpart C—Determination of Auction Awards; Settlement

- 356.20 How does the Treasury determine auction awards?
- 356.21 How are awards at the high yield or discount rate calculated?
- 356.22 Does the Treasury have any limitations on auction awards?
- 356.23 How are the auction results announced?
- 356.24 Will I be notified directly of my awards and, if I am submitting bids for others, do I have to provide confirmations?
- 356.25 How does the settlement process work?

Subpart D—Miscellaneous Provisions

- 356.30 When does the Treasury pay principal and interest on securities?
- 356.31 How does the STRIPS program work?
- 356.32 What tax rules apply?
- 356.33 Does the Treasury have any discretion in the auction process?
- 356.34 What could happen if someone does not fully comply with the auction rules or fails to pay for securities?
- 356.35 Who approved the information collections?

APPENDIX A TO PART 356—BIDDER CATEGORIES

APPENDIX B TO PART 356—FORMULAS AND TABLES

APPENDIX C TO PART 356—INVESTMENT CONSIDERATIONS

APPENDIX D TO PART 356—DESCRIPTION OF THE CONSUMER PRICE INDEX

AUTHORITY: 5 U.S.C. 301; 31 U.S.C. 3102, *et seq.*; 12 U.S.C. 391.

SOURCE: 69 FR 45202, July 28, 2004, unless otherwise noted.

Subpart A—General Information

§ 356.0 What authority does the Treasury have to sell and issue securities?

Chapter 31 of Title 31 of the United States Code authorizes the Secretary of the Treasury to issue United States obligations, and to offer them for sale with the terms and conditions that the Secretary prescribes.

§ 356.1 To which securities does this circular apply?

The provisions in this part, including the appendices, and each individual auction announcement govern the sale and issuance of marketable Treasury

PART 356—SALE AND ISSUE OF MARKETABLE BOOK-ENTRY TREASURY BILLS, NOTES, AND BONDS (DEPARTMENT OF THE TREASURY CIRCULAR, PUBLIC DEBT SERIES NO. 1–93)

Subpart A—General Information

Sec.

- 356.0 What authority does the Treasury have to sell and issue securities?
- 356.1 To which securities does this circular apply?
- 356.2 What definitions do I need to know to understand this part?
- 356.3 What is the role of the Federal Reserve Banks in this process?
- 356.4 What are the book-entry systems in which auctioned Treasury securities may be issued?
- 356.5 What types of securities does the Treasury auction?

Subpart B—Bidding, Certifications, and Payment

- 356.10 What is the purpose of an auction announcement?
- 356.11 How are bids submitted in an auction?
- 356.12 What are the different types of bids and do they have specific requirements or restrictions?
- 356.13 When must I report my net long position and how do I calculate it?
- 356.14 What are the requirements for submitting bids for customers?
- 356.15 What rules apply to bids submitted by investment advisers?
- 356.16 Do I have to make any certifications?

securities issued on or after March 1, 1993. This part also governs all securities eligible for the STRIPS (Separate Trading of Registered Interest and Principal of Securities) Program (See § 356.31.). In addition, these provisions and the auction announcements govern any other types of securities we may issue under this part.

§ 356.2 What definitions do I need to know to understand this part?

Accrued interest means an amount that bidders must pay to us for interest income as part of the settlement amount. Accrued interest compensates us up front for interest that bidders will be paid but did not earn because it is attributable to a period of time prior to the issue date. (See Appendix B, section I, paragraph C of this part for additional explanation and examples.)

Adjusted value means, for an interest component stripped from an inflation-protected security, an amount derived by:

- (1) Multiplying the semiannual interest rate by the par amount, and then
- (2) Multiplying this value by: 100 divided by the Reference CPI of the original issue date (or dated date, when the dated date is different from the original issue date). (See Appendix B, section IV of this part for an example of how to calculate the adjusted value.)

Auction means a bidding process by which we sell marketable Treasury securities to the public.

Autocharge agreement means an agreement in a format acceptable to Treasury between a submitter or clearing corporation and a depository institution that authorizes us to:

- (1) Deliver awarded securities to either:
 - (i) The book-entry securities account of a designated depository institution in the commercial book-entry system, or
 - (ii) A TreasuryDirect account, and
- (2) Charge a funds account of a designated depository institution for the settlement amount of the securities.

Bid means an offer to purchase a stated par amount of securities, either competitively or noncompetitively, in an auction.

Bid-to-cover ratio means the total par amount of securities bid for in an auc-

tion divided by the total par amount of securities awarded. It excludes bids by, and awards to, the Federal Reserve for its own account.

Bidder, as further defined in Appendix A, means a person or an entity that offers to purchase Treasury securities in an auction either directly or through a depository institution or dealer. We may consider two or more persons or entities to be one bidder based on their relationship or their actions in participating in an auction. We consider a controlled account to be a bidder when an investment adviser bids in the name of the controlled account (See § 356.15.).

Bidder Identification Number means a number we assign to each institutional submitter and to certain other bidders. We assign such numbers either to identify certain bidders or to grant separate bidder status to different parts of the same corporate or partnership structure.

Book-entry security means a security that is issued and maintained as an accounting entry or electronic record in either the commercial book-entry system or in TreasuryDirect. (See § 356.4.)

Business day means any day on which the Federal Reserve Banks are open for business.

Call means the redemption of a security prior to maturity under the terms specified in its auction announcement.

Clearing corporation means a clearing agency as defined in section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c(a)(23)). A clearing corporation must be registered with the Securities and Exchange Commission under section 17A of the Securities Exchange Act of 1934 and its rules.

Competitive bid means a bid to purchase a stated par amount of securities at a specified yield or discount rate.

Consumer Price Index (CPI) means the monthly non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers, published by the Bureau of Labor Statistics of the Department of Labor. We use the CPI as the basis for adjusting the principal amounts of inflation-protected securities. (See Appendix D.)

Corpus means the principal component of a security that has been stripped of its interest components.

CUSIP number means the unique identifying number assigned to each separate security issue and each separate STRIPS component. CUSIP numbers are provided by the CUSIP Service Bureau of Standard & Poor's Corporation. CUSIP is an acronym for Committee on Uniform Securities Identification Procedures.

Customer means a bidder that directs a depository institution or dealer to submit or forward a bid for a specific amount of securities in a specific auction on the bidder's behalf. Only depository institutions and dealers may submit bids for customers directly to us, or forward them to another depository institution or dealer.

Dated date means the date from which interest accrues for notes and bonds. The dated date and issue date are usually the same. In those cases where interest begins accruing prior to the issue date, however, the dated date will be prior to the issue date. An example is when the dated date is a Saturday and the issue date is the following Monday.

Dealer means an entity that is registered or has given notice of its status as a government securities broker or government securities dealer under Section 15C(a)(1) of the Securities Exchange Act of 1934.

Delivery and payment agreement means a written agreement between a clearing corporation and a submitter, acknowledged by a Federal Reserve Bank, regarding securities awarded to the submitter for its own account. It authorizes us to deliver such securities to, and accept payment from, a depository institution acting on behalf of the clearing corporation under an acknowledged autocharge agreement.

Depository institution means:

(1) An entity described in Section 19(b)(1)(A), excluding subparagraph (vii), of the Federal Reserve Act (12 U.S.C. 461(b)(1)(A)).

(2) Any agency or branch of a foreign bank as defined by the International Banking Act of 1978, as amended (12 U.S.C. 3101).

Discount means the difference between par and the price of the security, when the price is less than par. (See Appendix B for formulas and examples.)

Discount amount means the discount divided by 100 and multiplied by the par amount. (See Appendix B for formulas and examples.)

Discount rate means a rate of return, on an annual basis, on bills held until they mature. The discount rate is expressed in percentage terms and based on a 360-day year. It is also referred to as the "bank discount rate." (See Appendix B for formulas and examples.)

Funds account means a cash account maintained by a depository institution at a Federal Reserve Bank.

Index means the Consumer Price Index.

Index ratio means, for an inflation-protected security, the Reference CPI of a particular date divided by the Reference CPI of the original issue date. (When the dated date is different from the original issue date, the denominator of the index ratio is the Reference CPI of the dated date rather than that of the original issue date.)

Inflation-adjusted principal means, for an inflation-protected security, the value of the security derived by multiplying the par amount by the applicable index ratio as described in Appendix B, section I, paragraph B.

Interest rate means the annual percentage rate of interest paid on the par amount (or the inflation-adjusted principal) of a specific issue of notes or bonds. (See Appendix B for methods and examples of interest calculations on notes and bonds.)

Intermediary means a depository institution or dealer that forwards bids for customers to another depository institution or dealer. An intermediary does not submit bids directly to us.

Issue date means the date specified in the auction announcement on which we issue a security as an obligation of the United States. Interest normally begins to accrue on a security's issue date.

Marketable security means a security that may be bought, sold and transferred in the secondary market.

Maturity date means the date on which a security becomes due and payable, and ceases to earn interest. The maturity date is specified in the auction announcement.

Minimum to bid means the smallest amount of a security that may be bid

for in an auction as stated in the auction announcement.

Multiple to bid means the smallest additional amount of a security that may be bid for in an auction as stated in the auction announcement.

Multiple-price auction means an auction in which each successful competitive bidder pays the price equivalent to the yield or rate that it bid.

Noncompetitive bid means, for a single-price auction, a bid to purchase a stated par amount of securities at the highest yield or discount rate awarded to competitive bidders. For a multiple-price auction, a noncompetitive bid means a bid to purchase securities at the weighted average yield or discount rate of awards to competitive bidders.

Offering amount means the par amount of securities we are offering to the public for purchase in an auction, as specified in the auction announcement.

Par means a price of 100. (See Appendix B.)

Par amount means the stated value of a security at original issuance.

Person means a natural person.

Premium means the difference between par and the price of the security, when the price is greater than par.

Premium amount means the premium divided by 100 and multiplied by the par amount.

Price means the price of a security per 100 dollars of its stated value as calculated using the formulas in Appendix B.

Real yield means, for an inflation-protected security, the yield based on the payment stream in constant dollars. In other words, the real yield is the yield in the absence of inflation.

Reference CPI (Ref CPI) means, for an inflation-protected security, the index number applicable to a given date. (See Appendix B, section I, paragraph B.)

Reopening means the auction of an additional amount of an outstanding security.

Security means a Treasury bill, note, or bond, each as described in this part. Security also means any other obligation we issue that is subject to this part according to its auction announcement. Security includes an interest or principal component under the STRIPS program.

Settlement means final and complete payment for securities awarded in an auction and delivery of those securities.

Settlement amount means the total of the par amount of securities awarded, less any discount amount or plus any premium amount, and plus any accrued interest. For inflation-protected securities, the settlement amount also includes any inflation adjustment when such securities are reopened or when the dated date is different from the issue date.

Single-price auction means an auction in which all successful bidders pay the same price regardless of the yields or rates they each bid.

STRIPS (Separate Trading of Registered Interest and Principal of Securities) means our program under which eligible securities are authorized to be separated into principal and interest components, and transferred separately. These components are maintained and transferred in the commercial book-entry system.

Submitter means a person or entity submitting bids directly to us for its own account, for customer accounts, or both. Only depository institutions and dealers are permitted to submit bids for customer accounts. We permit investment advisers to submit bids on behalf of controlled accounts.

TINT means an interest component from a stripped security.

TreasuryDirect[®] means the TreasuryDirect Book-Entry Securities System. (See 31 CFR 357, subpart C.)

We (or "us") means the Secretary of the Treasury and his or her delegates, including the Department of the Treasury, Bureau of the Public Debt, and their representatives. The term also includes Federal Reserve Banks acting as fiscal agents of the United States.

Weighted-average means the average of the yields or discount rates at which we award securities to competitive bidders weighted by the par amount of securities allotted at each yield or discount rate.

Yield means the annualized rate of return to maturity on a fixed-principal security. Yield is expressed as a percentage. For an inflation-protected security, yield means the real yield.

§ 356.3

Yield is also referred to as “yield to maturity.” (See Appendix B.)

You means a prospective bidder in an auction.

§ 356.3 What is the role of the Federal Reserve Banks in this process?

The Treasury Department authorizes Federal Reserve Banks, as fiscal agents of the United States, to perform all activities necessary to carry out the provisions of this part, any auction announcements, and applicable regulations.

§ 356.4 What are the book-entry systems in which auctioned Treasury securities may be issued?

We issue Treasury marketable securities into either of two book-entry securities systems—the commercial book-entry system or TreasuryDirect. We maintain and transfer securities in these two book-entry systems at their par amount. For example, par amounts of inflation-protected securities do not include adjustments for inflation. Securities may be transferred from one system to the other. See Department of the Treasury Circular, Public Debt Series No. 2-86, as amended (31 CFR Part 357).

(a) *The commercial book-entry system.* When depository institutions or dealers submit bids for Treasury securities in an auction, securities awarded as a result of those bids are generally held in the commercial book-entry system. Specifically, we maintain book-entry accounts in the National Book-Entry System® (“NBES”) for Federal Reserve Banks, depository institutions, and other authorized entities, such as government and international agencies and foreign central banks. In their accounts, depository institutions maintain securities held for their own account and for the accounts of others. The accounts held for others include those of other depository institutions and dealers, which may, in turn, maintain accounts for others.

(b) *TreasuryDirect.* In this system, we maintain the book-entry securities of account holders directly on the records of the Bureau of the Public Debt, Department of the Treasury. Bids for securities to be held in TreasuryDirect are generally submitted directly to us,

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although such bids may also be forwarded to us by a depository institution or dealer.

§ 356.5 What types of securities does the Treasury auction?

We offer securities under this part exclusively in book-entry form and as direct obligations of the United States issued under Chapter 31 of Title 31 of the United States Code. The securities are subject to the terms and conditions in this part, the regulations governing book-entry Treasury bills, notes, and bonds (31 CFR Part 357), and the auction announcements. When we issue additional securities with the same CUSIP number as outstanding securities, we consider them to be the same securities as the outstanding securities.

(a) *Treasury bills.*

- (1) Are issued at a discount;
- (2) Are redeemed at their par amount at maturity; and
- (3) Have maturities of not more than one year.

(b) *Treasury notes*—(1) Treasury fixed-principal¹ notes.

- (i) Are issued with a stated rate of interest to be applied to the par amount;
- (ii) Have interest payable semiannually;
- (iii) Are redeemed at their par amount at maturity;
- (iv) Are sold at discount, par, or premium, depending upon the auction results; and
- (v) Have maturities of at least one year, but of not more than ten years.

(2) *Treasury inflation-protected notes.*

- (i) Are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each interest payment date;
- (ii) Have interest payable semiannually;
- (iii) Are redeemed at maturity at their inflation-adjusted principal, or at their par amount, whichever is greater;

¹We use the term “fixed-principal” in this part to distinguish such securities from “inflation-protected” securities. We refer to fixed-principal notes and fixed-principal bonds as “notes” and “bonds” in official Treasury publications, such as auction announcements and auction results press releases, as well as in auction systems.

(iv) Are sold at discount, par, or premium, depending on the auction results (See Appendix B for price and interest payment calculations and Appendix C for Investment Considerations.); and

(v) Have maturities of at least one year, but not more than ten years.

(c) *Treasury bonds*—(1) Treasury fixed-principal bonds.

(i) Are issued with a stated rate of interest to be applied to the par amount;

(ii) Have interest payable semiannually;

(iii) Are redeemed at their par amount at maturity;

(iv) Are sold at discount, par, or premium, depending on the auction results; and

(v) Have maturities of more than ten years.

(2) *Treasury inflation-protected bonds*.

(i) Are issued with a stated rate of interest to be applied to the inflation-adjusted principal on each interest payment date;

(ii) Have interest payable semiannually;

(iii) Are redeemed at maturity at their inflation-adjusted principal, or at their par amount, whichever is greater;

(iv) Are sold at discount, par, or premium, depending on the auction results; and

(v) Have maturities of more than ten years. (See Appendix B for price and interest payment calculations and Appendix C for Investment Considerations.)

Subpart B—Bidding, Certifications, and Payment

§ 356.10 What is the purpose of an auction announcement?

By issuing an auction announcement, we provide public notice of the sale of bills, notes, and bonds. The auction announcement lists the specifics of each auction, *e.g.*, offering amount, term and type of security, CUSIP number, and issue and maturity dates. The auction announcement and this part, including the Appendices, specify the terms and conditions of sale. If anything in the auction announcement differs from this part, the auction announcement will control. If you intend to bid, you should read the applicable

auction announcement along with this part.

§ 356.11 How are bids submitted in an auction?

(a) *General*. (1) Bids must be submitted using an approved method, which depends on whether you are requesting us to issue the awarded securities in the commercial book-entry system or in TreasuryDirect (See § 356.4.). The approved submission methods for these respective systems are explained in this section. A bidder must provide its assigned bidder identification numbers if it has been assigned one. We have the option of accepting or rejecting incomplete bids.

(2) We must receive competitive and noncompetitive bids prior to their respective closing times, which are stated in the auction announcement. We will not include late bids in the auction. For bids other than those submitted on paper forms, our computer time stamp will establish the receipt time. You are bound by your bids after the closing time.

(3) We are not responsible for any delays, errors, or omissions. We are not responsible for any failures or disruptions of equipment or communications facilities used for participating in Treasury auctions.

(4) Submitters are responsible for bids submitted using computer equipment on their premises, whether or not such bids are authorized.

(b) *Commercial book-entry system*. (1) If you are a submitter and the awarded securities are to be issued in the commercial book-entry system, you must submit bids using one of our approved electronic methods except for contingency situations.

(2) You must have an agreement on file with us under which you agree to our terms and conditions for access to our system for participating in our auctions.

(3) In contingency situations, such as a power outage, we may accept bids by a telephone call to designated Treasury employees if you submit them prior to the relevant bidding deadline.

(c) *TreasuryDirect*. (1) If you are a submitter and the awarded securities are to be issued in TreasuryDirect, you may submit bids by using one of our

approved methods, *e.g.*, computer, automated telephone service, or paper forms. You may also reinvest the proceeds of maturing securities into new securities by completing the appropriate transaction request on time.

(2) If you are submitting bids by paper form, you must use forms authorized by the Bureau of the Public Debt and provide the requested information. We have the option of accepting or rejecting bids on any other form. You are responsible for ensuring that we receive bids in paper form on time. A competitive bid is on time if we receive it prior to the deadline for the receipt of competitive bids. A noncompetitive bid is on time if:

- (i) we receive it on or before the issue date, and
- (ii) the envelope it arrived in bears evidence, such as a U.S. Postal Service cancellation, that it was mailed prior to the auction date.

(3) If you are submitting a bid by computer or automated telephone service you must be an established TreasuryDirect account holder with a Taxpayer Identification Number. You may not submit a competitive bid by computer or telephone.

(4) In contingency situations, such as a power outage, we may accept bids by a telephone call to designated Treasury employees if you submit them prior to the relevant bidding deadline and you are an established TreasuryDirect account holder.

§ 356.12 What are the different types of bids and do they have specific requirements or restrictions?

(a) *General.* All bids must state the par amount of securities bid for and must equal or exceed the minimum to bid amount stated in the auction announcement. Bids in larger amounts must be in the multiple stated in the auction announcement.

(b) *Noncompetitive bids.* (1) *Maximum bid.* You may not bid noncompetitively for more than \$5 million. The maximum bid limitation does not apply if you are bidding solely through a TreasuryDirect reinvestment request. A request for reinvestment of securities maturing in TreasuryDirect is a noncompetitive bid.

(2) *Additional restrictions.* You may not bid noncompetitively in an auction in which you are bidding competitively. You may not bid noncompetitively if, in the security being auctioned, you hold a position in when-issued trading or in futures or forward contracts at any time between the date of the auction announcement and the time we announce the auction results. During this same timeframe, a noncompetitive bidder may not enter into any agreement to purchase or sell or otherwise dispose of the securities it is acquiring in the auction. For this paragraph, futures contracts include those:

- (i) That require delivery of the specific security being auctioned;
- (ii) For which the security being auctioned is one of several securities that may be delivered; or
- (iii) That are cash-settled.

(c) *Competitive bids.*—(1) *Bid format* (i) *Treasury bills.* A competitive bid must show the discount rate bid, expressed with three decimals in .005 increments. The third decimal must be either a zero or a five, for example, 5.320 or 5.325. We will treat any missing decimals as zero, for example, a bid of 5.32 will be treated as 5.320.

(ii) *Treasury fixed-principal securities.* A competitive bid must show the yield bid, expressed with three decimals, for example, 4.170. We will treat any missing decimals as zero, for example, a bid of 4.1 will be treated as 4.100.

(iii) *Treasury inflation-protected securities.* A competitive bid must show the real yield bid, expressed with three decimals, for example, 3.070. We will treat any missing decimals as zero, for example, a bid of 3 will be treated as 3.000. The real yield may be a positive number, a negative number, or zero.

(2) *Maximum recognized bid.* There is no limit on the maximum dollar amount that you may bid for competitively, either at a single yield or discount rate, or at different yields or discount rates. However, a competitive bid at a single yield or discount rate that exceeds 35 percent of the offering amount will be reduced to that amount. For example, if the offering amount is \$10 billion, the maximum bid amount we will recognize at any one yield or discount rate from any bidder

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is \$3.5 billion. (See § 356.22 for award limitations.)

(3) *Additional restriction.* You may not bid competitively in an auction in which you are bidding noncompetitively.

[69 FR 45202, July 28, 2004, as amended at 69 FR 53621, Sept. 2, 2004]

§ 356.13 When must I report my net long position and how do I calculate it?

(a) *Net long position reporting threshold.* (1) If you are bidding competitively

in an auction, you must report your net long position when the total of your bids plus your net long position in the security being auctioned equals or exceeds the net long position reporting threshold (See table.). We will specify this threshold in the auction announcement for each security (See § 356.10.). The threshold is typically 35 percent of the offering amount, but we may state a different threshold in the auction announcement. To see whether you must report your net long position, follow this table:

If . . .	And if . . .	Then . . .
(i) the total of your bids and your net long position in the security being auctioned equals or exceeds the reporting threshold.		you must report your net long position (which does not include your bids).
(ii) the total of your bids in the auction equals or exceeds the reporting threshold.	you have no position or a net short position in the security being auctioned.	you must report a zero.
(iii) the total of your bids and your net long position in the security being auctioned is less than the reporting threshold.		you may either report nothing (leave the field blank) or report your net long position.

(2) Also, if you have more than one bid in an auction and you must report either your net long position or a zero, you must report that figure only once. Finally, if you are a customer and must report either your net long position or a zero, you must report that figure through only one depository institution or dealer. (See § 356.14(d).)

(b) *“As of” time for calculating net long position.* You must calculate your net long position as of one half-hour prior to the closing time for receipt of competitive bids.

(c) *Components of the net long position.* Except as modified in paragraph (d) of this section, your net long position is the sum total of the par amounts of:

(1) Your holdings of outstanding securities with the same CUSIP number as the security being auctioned;

(2) Your holdings of STRIPS principal components of the security being auctioned, and;

(3) Your positions, in the security being auctioned, in:

(i) When-issued trading, including when-issued trading positions of the STRIPS principal components;

(ii) Futures contracts that require delivery of the specific security being auctioned (but not futures contracts

for which the security being auctioned is one of several securities that may be delivered, and not futures contracts that are cash-settled); and

(iii) Forward contracts that require delivery of the specific security being auctioned or of the STRIPS principal component of that security.

(d) *Calculating the net long position in a reopening.* In a reopening (additional issue) of an outstanding security, you may subtract the exclusion amount stated in the auction announcement from:

(1) Your holdings of the outstanding securities (paragraph (c)(1) of this section) combined with

(2) Your holdings of STRIPS principal components of the security being auctioned (paragraph (c)(2) of this section). We will specify the amount of holdings that you may exclude from the net long position calculation in the auction announcement. You may not take the exclusion if your combined holdings are zero or less. The exclusion is optional, but if you take the exclusion, you must include any holdings that exceed the exclusion amount in calculating your net long position. If the exclusion amount is greater than your combined holdings (paragraphs

(c)(1) and (2) of this section), you may calculate the combined holdings as zero, but they cannot be included in the calculation as a negative number.

§ 356.14 What are the requirements for submitting bids for customers?

(a) *Institutions that may submit bids for customers.* Only depository institutions or dealers may submit bids for customers, or for customers of intermediaries, under the requirements set out in this section. If a bid from a depository institution or a dealer fulfills a guarantee to a customer to sell a specified amount of securities at an agreed-upon price, or a price fixed in terms of an agreed-upon standard, then the bid is a bid of that depository institution or dealer. It is not a customer bid.

(b) *Payment.* Submitters must remit payment for bids they submit on behalf of customers, including customers of intermediaries, that result in awards of securities in the auction.

(c) *Identifying customers.* Submitters must provide the names of customers whenever they submit bids for them. Submitters must provide the names of their direct customers as well as customers of any intermediaries who are forwarding customer bids. For individuals, submitters must provide the customer's full name (first and last). For institutional customers, submitters must provide the name of the institution, and the bidder identification number if the customer provides it. For trusts or other fiduciary estates (See Appendix A.), submitters must provide on the customer list:

(1) The full name or title of the trustee or fiduciary;

(2) A reference to the document creating the trust or fiduciary estate with date of execution; and

(3) The employer identification number (not social security number) of the trust or fiduciary estate. We do not consider trusts to be a separate bidder that have not been assigned, or that do not provide, an employer identification number.

(d) *Competitive customer bids.* For each customer competitive bid, the submitter must provide the customer's name, the amount bid, and the yield or discount rate. The submitter or inter-

mediary must also report the net long position amount if the customer provides it. The submitter must inform a customer of the net long position reporting requirement (See § 356.13.) if the customer is bidding for \$100 million or more of securities. If the submitter's or intermediary's personnel know that the customer's position information is not correct, the submitter or intermediary may not submit the customer's bid.

(e) *Noncompetitive customer bids.* For each noncompetitive bid, the submitter must provide the customer's name and the amount bid. Submitters may either provide the customer's name with the bid or, if the list of customers is lengthy, the submitter may provide a summary bid amount covering all noncompetitive customers. If it provides a summary bid amount, the submitter must transmit the list of individual customers and their bid amounts by close of business on the auction day. However, the submitter must be able to provide the customer list details by the noncompetitive bidding deadline if requested.

§ 356.15 What rules apply to bids submitted by investment advisers?

(a) *General.* The auction rules that apply to investment advisers are determined by the relationship between "investment advisers" and "controlled accounts." An investment adviser means any person or entity that has investment discretion for the bids or positions of a different person or entity (a controlled account). A person or entity has investment discretion if it determines what, how many, and when securities will be purchased or sold on behalf of another person or entity. We consider a person that is employed or supervised by an investment adviser to be part of that investment adviser. We also consider the bids or positions of controlled accounts to be separate from the bids or positions of the person or entity with which they would otherwise be associated under the bidder categories in Appendix A of this part.

(b) *Bidding options.* (1) An investment adviser has two options for whose name to use when bidding on behalf of controlled accounts.

An investment adviser may bid for a controlled account . . .	In such cases, we consider the bidder to be . . .
(i) in the investment adviser's own name	the investment adviser.
(ii) in the name of the controlled account	the controlled account.

(2) Using the first option (paragraph (b)(1)(i)), an investment advisor could bid noncompetitively up to the noncompetitive bidding limit only for itself, as a single bidder. Using the second option (paragraph (b)(1)(ii)), an investment adviser could bid noncompetitively for each separately named controlled account up to the noncompetitive bidding limit. The investment adviser could also bid noncompetitively in its own name in the same auction up to the noncompetitive bidding limit. An investment adviser may not bid for a controlled account both noncompetitively and competitively in the same auction. If an investment adviser is bidding competitively in the name of a controlled account, the controlled account is subject to the award limitations of § 356.22(b).

(c) *Reporting net long positions.* If it is bidding competitively, an investment adviser must calculate the amount of

its bids and positions for purposes of the net long position reporting requirement found in § 356.13(a). In addition to its own competitive bids and positions, the investment adviser must also include in the calculation all other competitive bids and positions that it controls. If the net long position is reportable, the investment adviser must report it as a total in connection with only one bid as stated in § 356.13(a). This requirement applies regardless of whether the investment adviser bids in its own name or in the name of its controlled accounts. The following table shows which positions an investment adviser must include to determine whether it meets the net long position reporting threshold in § 356.13(a). If an investment adviser does meet the reporting threshold, the table also shows which positions must be included in, and which may be excluded from, the net long position calculation.

If an investment adviser is bidding competitively, and . . .	Then . . .
(1) the investment adviser has a net long position for its own account.	that position must be included in the investment adviser's net long position calculation.
(2) the investment adviser's competitive bid is for a controlled account.	any net long position of that account must be included in the investment adviser's net long position calculation.
(3) the investment adviser is not bidding competitively for a controlled account and . . .	
(i) the controlled account has a net long position of \$100 million or more.	that position must be included in the investment adviser's net long position calculation.
(ii) the controlled account has a net long position that is less than \$100 million.	that position may be excluded from the investment adviser's net long position calculation.
(iii) any net long position is excluded under paragraph (b)(3)(ii) of this table.	all net short positions of controlled accounts under \$100 million must also be excluded.

(d) *Certifications.* When an investment adviser bids for a controlled account, we deem the investment adviser to have certified that it is complying with this part and the auction announcement for the security. Further, we deem the investment adviser to have certified that the information it provided about bids for controlled accounts is accurate and complete.

(e) *Proration of awards.* Investment advisers that submit competitive bids in the names of controlled accounts are responsible for prorating any awards at the highest accepted yield or discount rate using the same percentage that we announce. See § 356.21 for examples of how to prorate.

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§ 356.16 Do I have to make any certifications?

(a) *Submitters.* If you submit bids or other information in an auction, we deem you to have certified that:

(1) You are in compliance with this part and the auction announcement;

(2) The information provided with regard to any bids for your own account is accurate and complete; and

(3) The information provided with regard to any bids for customers accurately and completely reflects information provided by your customers or intermediaries.

(4) If you submit bids by computer, you must have on file a written certification that, each time you submit such bids, you are in compliance with this part and the applicable auction announcement. An authorized person must sign and date the certification on behalf of the submitter, and it must be filed with us and renewed at least annually.

(b) *Intermediaries.* If you forward bids in an auction, we deem you to have certified that:

(1) You are in compliance with this part and the applicable auction announcement; and

(2) That the information you provided to a submitter or other intermediary with regard to bids for customers accurately and completely reflects information provided by those customers or intermediaries.

(c) *Customers.* By bidding for a security as a customer we deem you to have certified that:

(1) You are in compliance with this part and the auction announcement and;

(2) The information you provided to the submitter or intermediary in connection with the bid is accurate and complete.

§ 356.17 How and when do I pay for securities awarded in an auction?

(a) *General.* By bidding in an auction, you agree to pay the settlement amount for any securities awarded to you. (See § 356.25.) For notes and bonds, the settlement amount may include a premium amount, accrued interest, and, for inflation-protected securities, an inflation adjustment.

(b) *TreasuryDirect.* Unless you make other provisions, you must pay by debit entry to a deposit account or submit payment with your bids. To pay by debit entry, you must first authorize us to make debit entries to your deposit account under 31 CFR part 370. Payment by debit entry occurs on the settlement date for the actual settlement amount due. (See § 356.25.) You may also pay for reinvestments with maturing securities, however, you must pay separately for any premium, accrued interest, or inflation adjustment as soon as you receive your Payment Due Notice.

(1) *Bidding by computer or by telephone.* If you are bidding by computer or by telephone, you must pay for any securities awarded to you by debit entry to a deposit account.

(2) *Bidding by paper form.* If you are mailing bids to us on a paper form, you may either enclose your payment with the form or pay for any securities awarded to you by debit entry to a deposit account.

(i) *Payment with paper form.* For bills, you may pay by depository institution (cashier's or teller's) check, certified check, or currently dated Treasury or fiscal agency check made payable to you. For notes or bonds, in addition to the payment options for bills, you may also pay by personal check. If you submit a personal check, make it payable to TreasuryDirect and mail it to the Federal Reserve Bank handling your account. In your payment amount you must include the par amount and any announced accrued interest and/or inflation adjustment.

(ii) *Payment by debit entry to a deposit account.* If a depository institution or dealer is submitting your bids for securities to be held in TreasuryDirect, payment may be either by debit entry to a deposit account or by allowing us to charge the Federal Reserve Bank funds account of a depository institution.

(3) *Payment by maturing securities.* You may use maturing securities held in TreasuryDirect as payment for reinvestments into new securities that we are offering, as long as we receive the appropriate transaction request on time.

(c) *Commercial book-entry system.* Unless you make other provisions, payment of the settlement amount must be by charge to the funds account of a depository institution at a Federal Reserve Bank.

(1) A submitter that does not have a funds account at a Federal Reserve Bank or that chooses not to pay by charge to its own funds account must have an approved autocharge agreement on file with us before submitting any bids. Any depository institution whose funds account will be charged under an autocharge agreement will receive advance notice from us of the total par amount of, and price to be charged for, securities awarded as a result of the submitter's bids.

(2) A submitter that is a member of a clearing corporation may instruct that delivery and payment be made through the clearing corporation for securities awarded to the submitter for its own account. To do this, the following requirements must be met prior to submitting any bids:

(i) We must have acknowledged and have on file an autocharge agreement between the clearing corporation and a depository institution. By entering into such an agreement, the clearing corporation authorizes us to provide aggregate par and price information to the depository institution whose funds account will be charged under the agreement. The clearing corporation is responsible for remitting payment for auction awards of the clearing corporation member.

(ii) We must have acknowledged and have on file a delivery and payment agreement between the submitter and the clearing corporation. By entering into such an agreement, the submitter authorizes us to provide award and payment information to the clearing corporation.

Subpart C—Determination of Auction Awards; Settlement

§ 356.20 How does the Treasury determine auction awards?

(a) *Determining the range and amount of accepted competitive bids—*

(1) *Accepting bids.* First we accept in full all noncompetitive bids that were submitted by the noncompetitive bid-

ding deadline. After the closing time for receipt of competitive bids we start accepting those at the lowest yields or discount rates through successively higher yields or discount rates, up to the amount required to meet the offering amount. When necessary, we prorate bids at the highest accepted yield or discount rate as described below. If the amount of noncompetitive bids would absorb most or all of the offering amount, we will accept competitive bids in an amount sufficient to provide a fair determination of the yield or discount rate for the securities we are auctioning.

(2) *Accepting bids at the high yield or discount rate.* Generally, the total amount of bids at the highest accepted yield or discount rate exceeds the offering amount remaining after we accept the noncompetitive bids and the competitive bids at the lower yields or discount rates. In order to keep the total amount of awards as close as possible to the announced offering amount, we award a percentage of the bids at the highest accepted yield or discount rate. We derive the percentage by dividing the remaining par amount needed to fill the offering amount by the par amount of the bids at the high yield or discount rate and rounding up to the next hundredth of a whole percentage point, for example, 17.13%.

(b) *Determining the interest rate for new note and bond issues.* We set the interest rate at a $\frac{1}{8}$ of one percent increment. If a Treasury inflation-protected securities auction results in a negative or zero yield, the interest rate will be set at zero, and successful bidders' award prices will be calculated accordingly (See Appendix B to this part for formulas).

(1) *Single-price auctions.* The interest rate we establish produces the price closest to, but not above, par when evaluated at the yield of awards to successful competitive bidders.

(2) *Multiple-price auctions.* The interest rate we establish produces the price closest to, but not above, par when evaluated at the weighted-average yield of awards to successful competitive bidders.

(c) *Determining purchase prices for awarded securities.* We round price calculations to six decimal places on the

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basis of price per hundred, for example, 99.954321 (See Appendix B to this part).

(1) *Single-price auctions.* We award securities to both noncompetitive and competitive bidders at the price equivalent to the highest accepted discount rate or yield at which bids were accepted. For inflation-protected securities, the price for awarded securities is the price equivalent to the highest accepted real yield.

(2) *Multiple-price auctions—(i) Competitive bids.* We award securities to competitive bidders at the price equivalent to each yield or discount rate at which their bids were accepted.

(ii) *Noncompetitive bids.* We award securities to noncompetitive bidders at the price equivalent to the weighted average yield or discount rate of accepted competitive bids.

[69 FR 45202, July 28, 2004, as amended at 69 FR 53621, Sept. 2, 2004]

§ 356.21 How are awards at the high yield or discount rate calculated?

(a) *Awards to submitters.* We generally prorate bids at the highest accepted yield or discount rate under § 356.20(a)(2) of this part. For example, if 80.15% is the announced percentage at the highest yield or discount rate, we award 80.15% of the amount of each bid at that yield or rate. A bid for \$100 million at the highest accepted yield or discount rate would be awarded \$80,150,000 in this example. We always make awards for at least the minimum to bid, and above that amount we make awards in the appropriate multiple to bid. For example, Treasury bills may be issued with a minimum to bid of \$1,000 and multiples to bid of \$1,000. Say we accept an \$18,000 bid at the high discount rate, and the percent awarded at the high discount rate is 88.27%. We would award \$16,000 to that bidder, which is an upward adjustment from \$15,888.60 ($\$18,000 \times .8827$) to the nearest multiple of \$1,000. If we were to award 4.65% of bids at the highest accepted rate, for example, the award for a \$10,000 bid at that rate would be \$1,000, rather than \$465, in order to meet the minimum to bid for a bill issue.

(b) *Awards to customers.* The same prorating rules apply to customers as apply to submitters. Depository institutions and dealers, whether submit-

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ters or intermediaries, are responsible for prorating awards for their customers at the same percentage that we announce. For example, if 80.15% is the announced percentage at the highest yield or discount rate, then each customer bid at that yield or rate must be awarded 80.15%.

§ 356.22 Does the Treasury have any limitations on auction awards?

(a) *Awards to noncompetitive bidders.* The maximum award to any bidder is \$5 million. This limit does not apply to bidders bidding solely through TreasuryDirect reinvestment requests.

(b) *Awards to competitive bidders.* The maximum award is 35 percent of the offering amount less the bidder's net long position as reportable under § 356.13. For example, in a note auction with a \$10 billion offering amount, and therefore a maximum award of \$3.5 billion, a bidder with a reported net long position of \$1 billion could receive a maximum auction award of \$2.5 billion. When the bids and net long positions of more than one person or entity must be combined, as is the case with investment advisers and controlled accounts (See § 356.15(c).), we will use this combined amount for the purpose of this 35 percent award limit.

[69 FR 45202, July 28, 2004, as amended at 69 FR 53622, Sept. 2, 2004]

§ 356.23 How are the auction results announced?

(a) After the conclusion of the auction, we will announce the auction results through a press release that is available on our Web site at www.publicdebt.treas.gov.

(b) The press release will include such information as:

(1) The amounts of bids we accepted and the amount of securities we awarded;

(2) The range of accepted yields or discount rates;

(3) The proration percentage;

(4) The interest rate for a note or bond;

(5) A breakdown of the amounts of noncompetitive and competitive bids we accepted from, and awarded to, the public;

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(6) The amounts of bids tendered and accepted from the Federal Reserve Banks for their own accounts;

(7) The bid-to-cover ratio; and

(8) Other information that we may decide to include.

§ 356.24 Will I be notified directly of my awards and, if I am submitting bids for others, do I have to provide confirmations?

(a) *Notice of awards*—(1) *Notice to submitters*. We will provide notice to all submitters letting them know whether their bids were successful or not.

(2) *Notice to clearing corporations*. If we are to deliver awarded securities under a delivery and payment agreement, we will provide notice of the awards to the clearing corporation that is a party to the agreement.

(b) *Notification of awards to customers*. If you are a submitter for customers, you are responsible for notifying them of their awards. You are also responsible for notifying any intermediaries that forwarded successful bids to you. Similarly, an intermediary is responsible for providing notification of any awards to its customers and any intermediaries from whom it received bids.

(c) *Notification of awards and settlement amounts to a depository institution having an autocharge agreement with a submitter or a clearing corporation*. We will notify each depository institution that has entered into an autocharge agreement with a submitter or a clearing corporation of the amount to be charged, on the issue date, to the institution's funds account at the Federal Reserve Bank servicing the institution. We will provide this notification no later than the day after the auction.

(d) *Customer confirmation*. Any customer awarded a par amount of \$500 million or more in an auction must send us a confirmation containing the information in paragraphs (d)(1) and (2) of this section. The confirmation must be sent no later than 10:00 a.m. on the day following the auction. The confirmation must be signed by the customer or authorized representative. If signed by an authorized representative, the confirmation must include the capacity in which the representative is acting. A submitter or intermediary submitting or forwarding bids for a

customer must notify the customer of this requirement if we award the customer \$500 million or more as a result of those bids. The information the customer must provide in writing is:

(1) A confirmation of the awarded bid(s), including the name of the submitter that submitted the bid(s) on the customer's behalf, and

(2) A statement indicating whether the customer had a reportable net long position as defined in § 356.13. If a position had to be reported, the statement must provide the amount of the position and the name of the submitter that the customer requested to report the position.

§ 356.25 How does the settlement process work?

Securities bought in the auction must be paid for by the issue date. The payment amount for awarded securities will be the settlement amount as defined in § 356.2. (See formulas in Appendix B.) There are several ways to pay for securities:

(a) *Payment by debit entry to a deposit account*. If you are paying by debit entry to a deposit account as provided for in § 356.17(b)(1) or (b)(2), we will charge the settlement amount to the specified account on the issue date.

(b) *Payment by authorized charge to a funds account*. Where the submitter's method of payment is an authorized charge to the funds account of a depository institution as provided for in § 356.17(c)(1) and (c)(2), we will charge the settlement amount to the specified funds account on the issue date.

(c) *Payment with bids*. If you paid the par amount with your bids as provided for in § 356.17(b)(2), you may have to pay an additional amount, or we may have to pay an amount to you, as follows:

(1) *When we owe an amount to you*. If the amount you paid is more than the settlement amount, we will refund the balance to you after the auction. This situation will generally be the case if you submit payment with your bids. A typical example would be an auction where the price is a discount from par and there is no accrued interest.

(2) *When you must remit an additional amount*. If the settlement amount is more than the amount you paid, we

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will notify you of the additional amount due, which you will be responsible for remitting immediately. You may owe us such an additional amount if the auction calculations result in a premium or if accrued interest or an inflation adjustment is due.

Subpart D—Miscellaneous Provisions

§ 356.30 When does the Treasury pay principal and interest on securities?

(a) *General.* We will pay principal on bills, notes, and bonds on the maturity date as specified in the auction announcement. Interest on bills consists of the difference between the discounted amount paid by the investor at original issue and the par value we pay

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to the investor at maturity. Interest on notes and bonds accrues from the dated date. Interest is payable on a semiannual basis on the interest payment dates specified in the auction announcement through the maturity date. If any principal or interest payment date is a Saturday, Sunday, or other day on which the Federal Reserve System is not open for business, we will make the payment (without additional interest) on the next business day. If a bond is callable, we will pay the principal prior to maturity if we call it under its terms, which include providing appropriate public notice.

(b) *Treasury inflation-protected securities.* (1) This table explains the amount that we will pay to holders of inflation-protected securities at maturity.

At maturity, if . . .	then . . .
(i) the inflation-adjusted principal is equal to or more than the par amount of the security..	we will pay the inflation-adjusted principal.
(ii) the inflation-adjusted principal is less than the par amount of the security, and the security has not been stripped..	we will pay an additional amount so that the additional amount plus the inflation-adjusted principal equals the par amount.
(iii) the inflation-adjusted principal is less than the par amount of the security, and the security has been stripped..	to holders of principal components only we will pay an additional amount so that the additional amount plus the inflation-adjusted principal equals the par amount.

(2) Regardless of whether or not we pay an additional amount, we will base the final interest payment on the inflation-adjusted principal at maturity.

(c) *Discharge of payment obligations—*

(1) *The commercial book-entry system.*

We discharge our payment obligations when we credit payment to the account maintained at a Federal Reserve Bank for a depository institution or other authorized entity, or when we make payment according to the instructions of the person or entity maintaining the account. Further, we do not have any obligations to any person or entity that does not have an account with a Federal Reserve Bank. We also will not recognize the claims of any person or entity:

(i) That does not have an account at a Federal Reserve Bank, or

(ii) With respect to any accounts not maintained at a Federal Reserve Bank.

(2) *TreasuryDirect.* We discharge our payment obligations when we make payment to a depository institution for

credit to the account specified by the owner of the security, or when we make payment according to the instructions of the security's owner or the owner's legal representative.

§ 356.31 How does the STRIPS program work?

(a) *General.* Notes or bonds may be “stripped”—divided into separate principal and interest components. These components must be maintained in the commercial book-entry system. Stripping is done at the option of the holder, and may occur at any time from issuance until maturity. We provide the CUSIP numbers and payment dates for the principal and interest components in auction announcements and on our website at www.publicdebt.treas.gov.

(b) *Treasury fixed-principal securities (notes and bonds other than Treasury inflation-protected securities)—(1) Minimum par amounts required for STRIPS.* The

minimum par amount of a fixed-principal security that may be stripped is \$1,000. Any par amount to be stripped above \$1,000 must be in a multiple of \$1,000.

(2) *Principal components.* Principal components stripped from fixed-principal securities are maintained in accounts, and transferred, at their par amount. They have a CUSIP number that is different from the CUSIP number of the fully constituted (unstripped) security.

(3) *Interest components.* Interest components stripped from fixed-principal securities have the following features:

(i) They are maintained in accounts, and transferred, at their original payment value, which is derived by multiplying the semiannual interest rate and the par amount;

(ii) Their interest payment date becomes the maturity date for the component;

(iii) All interest components with the same maturity date have the same CUSIP number, regardless of the underlying security from which the interest payments were stripped, and therefore are fungible (interchangeable).

(iv) the CUSIP numbers of interest components are different from the CUSIP numbers of principal components and fully constituted securities, even if they have the same maturity date, and therefore are not fungible.

(c) *Treasury inflation-protected securities*—(1) *Minimum par amounts required for STRIPS.* The minimum par amount of an inflation-protected security that may be stripped is \$1,000. Any par amount to be stripped above \$1,000 must be in a multiple of \$1,000.

(2) *Principal components.* Principal components stripped from inflation-protected securities are maintained in accounts, and transferred, at their par amount. At maturity, the holder will receive the inflation-adjusted principal or the par amount, whichever is greater. (See § 356.30.) A principal component has a CUSIP number that is different from the CUSIP number of the fully constituted (unstripped) security.

(3) *Interest components.*—(i) *Adjusted value.* Interest components stripped from inflation-protected securities are maintained in accounts, and transferred, at their adjusted value. This

value is derived by multiplying the semiannual interest rate by the par amount and then multiplying this value by: 100 divided by the Reference CPI of the original issue date. (The dated date is used instead of the original issue date when the dates are different.) See Appendix B, Section IV of this part for an example of how to do this calculation.

(ii) *CUSIP numbers.* When an interest payment is stripped from an inflation-protected security, the interest payment date becomes the maturity date for the component. All interest components with the same maturity date have the same CUSIP number, regardless of the underlying security from which the interest payments were stripped. Such interest components are fungible (interchangeable). The CUSIP numbers of interest components are different from the CUSIP numbers of principal components and fully constituted securities, even if they have the same maturity date.

(iii) *Payment at maturity.* At maturity, the payment to the holder will be derived by multiplying the adjusted value of the interest component by the Reference CPI of the maturity date, divided by 100. See Appendix B, Section IV of this part for an example of how to do this calculation.

(iv) *Rebasing of the CPI.* If the CPI is rebased to a different time base reference period (See Appendix D.), the adjusted values of all outstanding inflation-protected interest components will be converted to adjusted values based on the new base reference period. At that time, we will publish information that describes how this conversion will occur. After rebasing, any interest components created from a security that was issued during a prior base reference period will be issued with adjusted values calculated using reference CPIs under the most-recent base reference period.

(d) *Reconstituting a security.* Stripped interest and principal components may be reconstituted, that is, put back together into their fully constituted form. A principal component and all related unmatured interest components, in the appropriate minimum or multiple amounts or adjusted values, must

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be submitted together for reconstitution. Because inflation-protected interest components are different from fixed-principal interest components, they are not interchangeable for reconstitution purposes.

(e) *Applicable regulations.* Subparts A, B, and D of part 357 of this chapter govern notes and bonds stripped into their STRIPS components, unless we state differently in this part.

§ 356.32 What tax rules apply?

(a) *General.* Securities issued under this part are subject to all applicable taxes imposed under the Internal Revenue Code of 1986, or its successor. Under section 3124 of title 31, United States Code, the securities are exempt from taxation by a State or political subdivision of a State, except for State estate or inheritance taxes and other exceptions as provided in that section.

(b) *Treasury inflation-protected securities.* Special federal income tax rules for inflation-protected securities, including stripped inflation-protected principal and interest components, are set forth in Internal Revenue Service regulations.

§ 356.33 Does the Treasury have any discretion in the auction process?

- (a) We have the discretion to:
- (1) Accept, reject, or refuse to recognize any bids submitted in an auction;
 - (2) Award more or less than the amount of securities specified in the auction announcement;
 - (3) Waive any provision of this part for any bidder or submitter; and
 - (4) Change the terms and conditions of an auction.
- (b) Our decisions under this part are final. We will provide a public notice if we change any auction provision, term, or condition.
- (c) We reserve the right to modify the terms and conditions of new securities and to depart from the customary pattern of securities offerings at any time.

§ 356.34 What could happen if someone does not fully comply with the auction rules or fails to pay for securities?

(a) *General.* If a person or entity fails to comply with any of the auction rules in this part, we will consider the

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circumstances and take what we deem to be appropriate action. This could include barring the person or entity from participating in future auctions under this part. We also may refer the matter to an appropriate regulatory agency.

(b) *Liquidated damages.* If you fail to pay for awarded securities in a timely manner, we may require you to pay liquidated damages of up to one percent of the par amount of securities we awarded to you. Our use of this liquidated damages remedy does not preclude us from using any other appropriate remedy.

§ 356.35 Who approved the information collections?

The Office of Management and Budget approved the collections of information contained in §§ 356.11, 356.12, 356.13, 356.14, and 356.15 and in Appendix A of this part under control number 1535–0112.

APPENDIX A TO PART 356—BIDDER CATEGORIES

I. CATEGORIES OF ELIGIBLE BIDDERS

We describe below various categories of bidders eligible to bid in Treasury auctions. You may use them to determine whether we consider you and other entities to be one bidder or more than one bidder for auction bidding and compliance purposes. For example, we use these definitions to apply the competitive and noncompetitive award limitations and for other requirements. Notwithstanding these definitions, we consider any persons or entities that intentionally act together with respect to bidding in a Treasury auction to collectively be one bidder. Even if an auction participant does not fall under any of the categories listed below, it is our intent that no auction participant receives a larger auction award by acquiring securities through others than it could have received had it been considered one of these types of bidders.

(a) *Corporation*—We consider a corporation to be one bidder. A corporation includes all of its affiliates, which may be persons, partnerships, or other entities. We use the term “corporate structure” to refer to the collection of affiliates that we consider collectively to be one bidder. An affiliate is any:

- Entity that is more than 50% owned, directly or indirectly, by the corporation;
- Entity that is more than 50% owned, directly or indirectly, by any other affiliate of the corporation;
- Person or entity that owns, directly or indirectly, more than 50% of the corporation;

- Person or entity that owns, directly or indirectly, more than 50% of any other affiliate of the corporation; or
- Entity, a majority of whose board of directors or a majority of whose general partners are directors or officers of the corporation, or of any affiliate of the corporation.

We consider a business trust, such as a Massachusetts or Delaware business trust, to be a corporation.

(b) *Partnership*—We consider a partnership to be one bidder if it is a partnership for which the Internal Revenue Service has assigned a tax-identification number. A partnership includes all of its affiliates, which may be persons, corporations, general partners acting on behalf of the partnership, or other entities. We use the term “partnership structure” to refer to the collection of affiliates that we consider collectively to be one bidder. We may consider a partnership structure that contains one or more corporations as a “partnership” or a “corporation,” but not both.

An affiliate is any:

- Entity that is more than 50% owned, directly or indirectly, by the partnership;
- Entity that is more than 50% owned, directly or indirectly, by any other affiliate of the partnership;
- Person or entity that owns, directly or indirectly, more than 50% of the partnership;
- Person or entity that owns, directly or indirectly, more than 50% of any other affiliate of the partnership; or
- Entity, a majority of whose general partners or a majority of whose board of directors are general partners or directors of the partnership or of any affiliate of the partnership.

(c) *Government-related entity*—We consider each of the following entities to be one bidder:

- (1) A state government or the government of the District of Columbia
- (2) A unit of local government, including any county, city, municipality, or township, or other unit of general government as defined by the Bureau of the Census for statistical purposes.
- (3) A commonwealth, territory, or possession of the United States.
- (4) A governmental entity, body, or corporation established under Federal, State, or local law.
- (5) A foreign central bank, the government of a foreign state, or an international organization in which the United States holds membership. This type of entity applies only when such entity is not using an account at the Federal Reserve Bank of New York (See paragraph (f)).

We generally consider an investment, reserve, or other fund of one of the above government-related entities as part of that entity and not a separate bidder. We will consider a government-related entity's fund to

be a separate bidder if it meets the definition of the “trust or other fiduciary estate” category, or if applicable law requires that the investments of such fund be made separately.

(d) *Trust or other fiduciary estate*—We consider a legal entity created under a valid trust instrument, court order, or other legal authority that designates a trustee or fiduciary to act for the benefit of a named beneficiary to be one bidder. The following conditions must also be met for us to consider a trust entity to be one bidder:

- The legal entity must be able to be identified by:
 1. The name or title of the trustee or fiduciary;
 2. Specific reference to the trust instrument, court order, or legal authority under which the trustee or fiduciary is acting; and
 3. The unique IRS-assigned employer identification number (not social security number) for the entity.

• The trustee or fiduciary must make the decisions on participating in auctions on behalf of the trust or fiduciary estate.

(e) *Individual*—We consider a person to be one bidder, regardless of whether he or she is acting as an individual, a sole proprietor, or for any entity not otherwise defined as a bidder. If a person meets the definition of an affiliate within a corporate or partnership structure, we will consider him or her to be a bidder in this “individual” category if the corporation or partnership is not bidding in the same auction. We do not consider a person acting in an official capacity as an employee or other representative of a bidder defined in any other category to be an “individual” bidder. We consider a person, his or her spouse, and any children under the age of 21 having a common household to be one “individual” bidder.

(f) *Foreign and International Monetary Authority (“FIMA”)*—We consider one or more parties making up a foreign or international monetary organization that is not private in nature to be a bidder called a FIMA entity if at least one of the parties is a foreign or international entity that is (i) financial in nature, or (ii) not financial in nature but is authorized to open an account at the Federal Reserve Bank of New York. We consider each of the following entities to be a single FIMA entity:

- (1) A foreign central bank or regional central bank.
- (2) A foreign governmental monetary or finance entity.
- (3) A non-governmental international financial organization that is not private in nature (for example, the International Monetary Fund, the World Bank, the Inter-American Development Bank, and the Asian Development Bank).

(4) A non-financial international organization that the United States participates in (for example, the United Nations).

(5) A multi-party arrangement of a governmental ministry and/or a foreign central bank or monetary authority with a United States Government Department and/or the Federal Reserve Bank of New York.

(6) A foreign or international monetary entity or an entity authorized by statute or by us to open accounts at the Federal Reserve Bank of New York.

(g) *Other Bidder*—We do not consider a bidder defined by any of the above categories to be a bidder in this category. For purposes of this definition, “other bidder” means an institution or organization with a unique IRS-assigned employer identification number. This definition includes such entities as an association, church, university, union, or club. This category does not include any person or entity acting in a fiduciary or investment management capacity, a sole proprietorship, an investment account, an investment fund, a form of registration, or investment ownership designation.

II. HOW TO OBTAIN SEPARATE BIDDER RECOGNITION

Under certain circumstances, we may recognize a major organizational component (e.g., the parent or a subsidiary) in a corporate or partnership structure as a bidder separate from the larger corporate or partnership structure. We also may recognize two or more major organizational components collectively as one bidder. All of the following criteria must be met for such component(s) to qualify for recognition as a separate bidder:

(a) Such component(s) must be prohibited by law or regulation from exchanging, or must have established written internal procedures designed to prevent the exchange of, information related to bidding in Treasury auctions with any other component in the corporate or partnership structure;

(b) Such component(s) must not be created for the purpose of circumventing our bidding and award limitations;

(c) Decisions related to purchasing Treasury securities at auction and participation in specific auctions must be made by employees of such component(s). Employees of such component(s) that make decisions to purchase or dispose of Treasury securities must not perform the same function for other components within the corporate or partnership structure; and

(d) The records of such component(s) related to the bidding for, acquisition of, and disposition of Treasury securities must be maintained by such component(s). Those records must be identifiable—separate and apart from similar records for other components within the corporate or partnership structure. To obtain recognition as a separate bidder, each component or group of components must request such recognition from us, provide a description of the component or group and its position within the corporate or partnership structure, and provide the following certification:

[Name of the bidder] hereby certifies that to the best of its knowledge and belief it meets the criteria for a separate bidder as described in Appendix A to 31 CFR Part 356. The above-named bidder also certifies that it has established written policies or procedures, including ongoing compliance monitoring processes, that are designed to prevent the component or group of components from:

(1) Exchanging any of the following information with any other part of the corporate [partnership] structure: (a) yields or rates at which it plans to bid; (b) amounts of securities for which it plans to bid; (c) positions that it holds or plans to acquire in a security being auctioned; and (d) investment strategies that it plans to follow regarding the security being auctioned, or

(2) In any way intentionally acting together with any other part of the corporate [partnership] structure with respect to formulating or entering bids in a Treasury auction.

The above-named bidder agrees that it will promptly notify the Department in writing when any of the information provided to obtain separate bidder status changes or when this certification is no longer valid.

EFFECTIVE DATE NOTE: At 70 FR 29456, May 23, 2005, appendix A to part 356 was amended by by revising the introductory text and paragraphs (a) and (b) in section I, effective July 23, 2005. For the convenience of the user, the revised text is set forth as follows:

APPENDIX A TO PART 356—BIDDER CATEGORIES

I. CATEGORIES OF ELIGIBLE BIDDERS

We describe below various categories of bidders eligible to bid in Treasury auctions. You may use them to determine whether we consider you and other persons or entities to be one bidder or more than one bidder for auction bidding and compliance purposes. For example, we use these definitions to apply the competitive and noncompetitive award limitations and for other requirements. Notwithstanding these definitions, we consider any persons or entities that intentionally act together with respect to bidding in a Treasury auction to collectively be one bidder. Even if an auction participant does not fall under any of the categories listed below, it is our intent that no auction participant receives a larger auction award by acquiring securities through others than it could have received had it been considered one of these types of bidders.

(a) *Corporation*—We consider a corporation to be one bidder. A corporation includes all of its affiliates, which may be persons, partnerships, or other entities. We consider a business trust, such as a Massachusetts or Delaware business trust, to be a corporation. We use the term “corporate structure” to refer to the collection of affiliates that we consider collectively to be one bidder. An affiliate is any:

- Entity that is more than 50-percent owned, directly or indirectly, by the corporation;
- Entity that is more than 50-percent owned, directly or indirectly, by any other affiliate of the corporation;
- Person or entity that owns, directly or indirectly, more than 50 percent of the corporation;
- Person or entity that owns, directly or indirectly, more than 50 percent of any other affiliate of the corporation; or
- Entity, a majority of whose board of directors or a majority of whose general partners are directors or officers of the corporation, or of any affiliate of the corporation.

An entity that is more than 50-percent owned as described in this definition is not an affiliate, however, if:

- The purpose of such ownership is to seek a return on investment and not to engage in the business of the entity;
- The owner does not routinely exercise operational or management control over the entity;
- The owner does not exercise any control over investment decisions of the entity regarding U.S. Treasury securities;
- The corporation has written policies or procedures, including ongoing compliance monitoring processes, that are designed to prevent it from acting together with the entity regarding participation in Treasury auctions or investment strategies regarding Treasury securities being auctioned; and
- The corporation submits notice and certification to us, as provided in this appendix A.

A corporation that plans to make use of this exception to the definition of “affiliate” must inform us of this fact in writing and provide the following certification:

[Name of corporation] hereby certifies that, with regard to any entity of which it owns more than 50 percent as defined in appendix A to 31 CFR part 356, but for which the purpose of such ownership is to seek a return on investment and not to engage in the business of the entity:

- We do not routinely exercise operational or management control over the entity;
- We do not exercise any control over investment decisions of the entity regarding U.S. Treasury securities;
- We have written policies or procedures, including ongoing compliance monitoring processes, that are designed to prevent the

corporation from acting together with the entity regarding participation in Treasury auctions or investment strategies regarding Treasury securities being auctioned; and

- We will continue to meet the terms of this certification until we notify the Treasury of a change.

(b) *Partnership*—We consider a partnership to be one bidder if it is a partnership for which the Internal Revenue Service has assigned a tax-identification number. A partnership includes all of its affiliates, which may be persons, corporations, general partners acting on behalf of the partnership, or other entities. We use the term “partnership structure” to refer to the collection of affiliates that we consider collectively to be one bidder. We may consider a partnership structure that contains one or more corporations as a “partnership” or a “corporation,” but not both.

An affiliate is any:

- Entity that is more than 50-percent owned, directly or indirectly, by the partnership;
- Entity that is more than 50-percent owned, directly or indirectly, by any other affiliate of the partnership;
- Person or entity that owns, directly or indirectly, more than 50 percent of the partnership;
- Person or entity that owns, directly or indirectly, more than 50 percent of any other affiliate of the partnership; or
- Entity, a majority of whose general partners or a majority of whose board of directors are general partners or directors of the partnership or of any affiliate of the partnership.

An entity that is more than 50-percent owned as described in this definition is not an affiliate, however, if:

- The purpose of such ownership is to seek a return on investment and not to engage in the business of the entity;
- The owner does not routinely exercise operational or management control over the entity;
- The owner does not exercise any control over investment decisions of the entity regarding U.S. Treasury securities;
- The partnership has written policies or procedures, including ongoing compliance monitoring processes, that are designed to prevent it from acting together with the entity regarding participation in Treasury auctions or investment strategies regarding Treasury securities being auctioned; and
- The partnership submits notice and certification to us, as provided in this appendix A.

A partnership that plans to make use of this exception to the definition of “affiliate” must inform us of this fact in writing and provide the following certification:

[Name of partnership] hereby certifies that, with regard to any entity of which it

owns more than 50 percent as defined in appendix A to 31 CFR part 356, but for which the purpose of such ownership is to seek a return on investment and not to engage in the business of the entity:

- We do not routinely exercise operational or management control over the entity;
- We do not exercise any control over investment decisions of the entity regarding U.S. Treasury securities;
- We have written policies or procedures, including ongoing compliance monitoring processes, that are designed to prevent the partnership from acting together with the entity regarding participation in Treasury auctions or investment strategies regarding Treasury securities being auctioned; and
- We will continue to meet the terms of this certification until we notify the Treasury of a change.

* * * * *

APPENDIX B TO PART 356—FORMULAS AND TABLES

- I. Computation of Interest on Treasury Bonds and Notes.
- II. Formulas for Conversion of Fixed-Principal Security Yields to Equivalent Prices.
- III. Formulas for Conversion of Inflation-Protected Security Yields to Equivalent Prices.
- IV. Computation of Adjusted Values and Payment Amounts for Stripped Inflation-Protected Interest Components.
- V. Computation of Purchase Price, Discount Rate, and Investment Rate (Coupon-Equivalent Yield) for Treasury Bills.

The examples in this appendix are given for illustrative purposes only and are in no way a prediction of interest rates on any bills, notes, or bonds issued under this part.

In some of the following examples, we use intermediate rounding for ease in following the calculations. In actual practice, we generally do not round prior to determining the final result.

If you use a multi-decimal calculator, we recommend setting your calculator to at least 13 decimals and then applying normal rounding procedures. This should be sufficient to obtain the same final results. However, in the case of any discrepancies, our determinations will be final.

I. COMPUTATION OF INTEREST ON TREASURY BONDS AND NOTES

A. Treasury Fixed-Principal Securities

1. *Regular Half-Year Payment Period.* We pay interest on marketable Treasury fixed-principal securities on a semiannual basis. The regular interest payment period is a full half-year of six calendar months. Examples of half-year periods are: (1) February 15 to August 15, (2) May 31 to November 30, and (3) February 29 to August 31 (in a leap year). Calculation of an interest payment for a fixed-principal note with a par amount of \$1,000 and an interest rate of 8% is made in this manner: $(\$1,000 \times .08)/2 = \40 . Specifically, a semiannual interest payment represents one half of one year's interest, and is computed on this basis regardless of the actual number of days in the half-year.

2. *Daily Interest Decimal.* We compute a daily interest decimal in cases where an interest payment period for a fixed-principal security is shorter or longer than six months or where accrued interest is payable by an investor. We base the daily interest decimal on the actual number of calendar days in the half-year or half-years involved. The number of days in any half-year period is shown in Table 1.

TABLE 1

Interest period	Beginning and ending days are 1st or 15th of the months listed under interest period (number of days)		Beginning and ending days are the last days of the months listed under interest period (number of days)	
	Regular year	Leap year	Regular year	Leap year
January to July	181	182	181	182
February to August	181	182	184	184
March to September	184	184	183	183
April to October	183	183	184	184
May to November	184	184	183	183
June to December	183	183	184	184
July to January	184	184	184	184
August to February	184	184	181	182
September to March	181	182	182	183
October to April	182	183	181	182
November to May	181	182	182	183
December to June	182	183	181	182

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Table 2 below shows the daily interest decimals covering interest from $\frac{1}{8}\%$ to 20% on \$1,000 for one day in increments of $\frac{1}{8}$ of one percent. These decimals represent $\frac{1}{181}$, $\frac{1}{182}$, $\frac{1}{183}$, or $\frac{1}{184}$ of a full semiannual interest payment, depending on which half-year is applicable.

TABLE 2

[Decimal for one day's interest on \$1,000 at various rates of interest, payable semiannually or on a semiannual basis, in regular years of 365 days and in years of 366 days (to determine applicable number of days, see table 1.)]

Rate per annum (percent)	Half-year of 184 days	Half-year of 183 days	Half-year of 182 days	Half-year of 181 days
$\frac{1}{8}$	0.003396739	0.003415301	0.003434066	0.003453039
$\frac{1}{4}$	0.006793478	0.006830601	0.006868132	0.006906077
$\frac{3}{8}$	0.010190217	0.010245902	0.010302198	0.010359116
$\frac{1}{2}$	0.013586957	0.013661202	0.013736264	0.013812155
$\frac{5}{8}$	0.016983696	0.017076503	0.017170330	0.017265193
$\frac{3}{4}$	0.020380435	0.020491803	0.020604396	0.020718232
$\frac{7}{8}$	0.023777174	0.023907104	0.024038462	0.024171271
1	0.027173913	0.027322404	0.027472527	0.027624309
$1\frac{1}{8}$	0.030570652	0.030737705	0.030906593	0.031077348
$1\frac{1}{4}$	0.033967391	0.034153005	0.034340659	0.034530387
$1\frac{3}{8}$	0.037364130	0.037568306	0.037774725	0.037983425
$1\frac{1}{2}$	0.040760870	0.040983607	0.041208791	0.041436464
$1\frac{5}{8}$	0.044157609	0.044398907	0.044642857	0.044889503
$1\frac{3}{4}$	0.047554348	0.047814208	0.048076923	0.048342541
$1\frac{7}{8}$	0.050951087	0.051229508	0.051510989	0.051795580
2	0.054347826	0.054644809	0.054945055	0.055248619
$2\frac{1}{8}$	0.057744565	0.058060109	0.058379121	0.058701657
$2\frac{1}{4}$	0.061141304	0.061475410	0.061813187	0.062154696
$2\frac{3}{8}$	0.064538043	0.064890710	0.065247253	0.065607735
$2\frac{1}{2}$	0.067934783	0.068306011	0.068681319	0.069060773
$2\frac{5}{8}$	0.071331522	0.071721311	0.072115385	0.072513812
$2\frac{3}{4}$	0.074728261	0.075136612	0.075549451	0.075966851
$2\frac{7}{8}$	0.078125000	0.078551913	0.078983516	0.079419890
3	0.081521739	0.081967213	0.082417582	0.082872928
$3\frac{1}{8}$	0.084918478	0.085382514	0.085851648	0.086325967
$3\frac{1}{4}$	0.088315217	0.088797814	0.089285714	0.089779006
$3\frac{3}{8}$	0.091711957	0.092213115	0.092719780	0.093232044
$3\frac{1}{2}$	0.095108696	0.095628415	0.096153846	0.096685083
$3\frac{5}{8}$	0.098505435	0.099043716	0.099587912	0.100138122
$3\frac{3}{4}$	0.101902174	0.102459016	0.103021978	0.103591160
$3\frac{7}{8}$	0.105298913	0.105874317	0.106456044	0.107044199
4	0.108695652	0.109289617	0.109890110	0.110497238
$4\frac{1}{8}$	0.112092391	0.112704918	0.113324176	0.113950276
$4\frac{1}{4}$	0.115489130	0.116120219	0.116758242	0.117403315
$4\frac{3}{8}$	0.118885870	0.119535519	0.120192308	0.120856354
$4\frac{1}{2}$	0.122282609	0.122950820	0.123626374	0.124309392
$4\frac{5}{8}$	0.125679348	0.126366120	0.127060440	0.127762431
$4\frac{3}{4}$	0.129076087	0.129781421	0.130494505	0.131215470
$4\frac{7}{8}$	0.132472826	0.133196721	0.133928571	0.134668508
5	0.135869565	0.136612022	0.137362637	0.138121547
$5\frac{1}{8}$	0.139266304	0.140027322	0.140796703	0.141574586
$5\frac{1}{4}$	0.142663043	0.143442623	0.144230769	0.145027624
$5\frac{3}{8}$	0.146059783	0.146857923	0.147664835	0.148480663
$5\frac{1}{2}$	0.149456522	0.150273224	0.151098901	0.151933702
$5\frac{5}{8}$	0.152853261	0.153688525	0.154532967	0.155386740
$5\frac{3}{4}$	0.156250000	0.157103825	0.157967033	0.158839779
$5\frac{7}{8}$	0.159646739	0.160519126	0.161401099	0.162292818
6	0.163043478	0.163934426	0.164835165	0.165745856
$6\frac{1}{8}$	0.166440217	0.167349727	0.168269231	0.169198895
$6\frac{1}{4}$	0.169836957	0.170765027	0.171703297	0.172651934
$6\frac{3}{8}$	0.173233696	0.174180328	0.175137363	0.176104972
$6\frac{1}{2}$	0.176630435	0.177595628	0.178571429	0.179558011
$6\frac{5}{8}$	0.180027174	0.181010929	0.182005495	0.183011050
$6\frac{3}{4}$	0.183423913	0.184426230	0.185439560	0.186464088
$6\frac{7}{8}$	0.186820652	0.187841530	0.188873626	0.189917127
7	0.190217391	0.191256831	0.192307692	0.193370166
$7\frac{1}{8}$	0.193614130	0.194672131	0.195741758	0.196823204
$7\frac{1}{4}$	0.197010870	0.198087432	0.199175824	0.200276243
$7\frac{3}{8}$	0.200407609	0.201502732	0.202609890	0.203729282
$7\frac{1}{2}$	0.203804348	0.204918033	0.206043956	0.207182320
$7\frac{5}{8}$	0.207201087	0.208333333	0.209478022	0.210635359
$7\frac{3}{4}$	0.210597826	0.211748634	0.212912088	0.214088398
$7\frac{7}{8}$	0.213994565	0.215163934	0.216346154	0.217541436
8	0.217391304	0.218579235	0.219780220	0.220994475

TABLE 2—Continued

[Decimal for one day's interest on \$1,000 at various rates of interest, payable semiannually or on a semiannual basis, in regular years of 365 days and in years of 366 days (to determine applicable number of days, see table 1.)]

Rate per annum (percent)	Half-year of 184 days	Half-year of 183 days	Half-year of 182 days	Half-year of 181 days
8 1/8	0.220788043	0.221994536	0.223214286	0.224447514
8 1/4	0.224184783	0.225409836	0.226648352	0.227900552
8 3/8	0.227581522	0.228825137	0.230082418	0.231353591
8 1/2	0.230978261	0.232240437	0.233516484	0.234806630
8 5/8	0.234375000	0.235655738	0.236950549	0.238259669
8 3/4	0.237771739	0.239071038	0.240384615	0.241712707
8 7/8	0.241168478	0.242486339	0.243818681	0.245165746
9	0.244565217	0.245901639	0.247252747	0.248618785
9 1/8	0.247961957	0.249316940	0.250686813	0.252071823
9 1/4	0.251358696	0.252732240	0.254120879	0.255524862
9 3/8	0.254755435	0.256147541	0.257554945	0.258977901
9 1/2	0.258152174	0.259562842	0.260989011	0.262430939
9 5/8	0.261548913	0.262978142	0.264423077	0.265883978
9 3/4	0.264945652	0.266393443	0.267857143	0.269337017
9 7/8	0.268342391	0.269808743	0.271291209	0.272790055
10	0.271739130	0.273224044	0.274725275	0.276243094
10 1/8	0.275135870	0.276639344	0.278159341	0.279696133
10 1/4	0.278532609	0.280054645	0.281593407	0.283149171
10 3/8	0.281929348	0.283469945	0.285027473	0.286602210
10 1/2	0.285326087	0.286885246	0.288461538	0.290055249
10 5/8	0.288722826	0.290300546	0.291895604	0.293508287
10 3/4	0.292119565	0.293715847	0.295329670	0.296961326
10 7/8	0.295516304	0.297131148	0.298763736	0.300414365
11	0.298913043	0.300546448	0.302197802	0.303867403
11 1/8	0.302309783	0.303961749	0.305631868	0.307320442
11 1/4	0.305706522	0.307377049	0.309065934	0.310773481
11 3/8	0.309103261	0.310792350	0.312500000	0.314226519
11 1/2	0.312500000	0.314207650	0.315934066	0.317679558
11 5/8	0.315896739	0.317622951	0.319368132	0.321132597
11 3/4	0.319293478	0.321038251	0.322802198	0.324585635
11 7/8	0.322690217	0.324453552	0.326236264	0.328038674
12	0.326086957	0.327868852	0.329670330	0.331491713
12 1/8	0.329483696	0.331284153	0.333104396	0.334944751
12 1/4	0.332880435	0.334699454	0.336538462	0.338397790
12 3/8	0.336277174	0.338114754	0.339972527	0.341850829
12 1/2	0.339673913	0.341530055	0.343406593	0.345303867
12 5/8	0.343070652	0.344945355	0.346840659	0.348756906
12 3/4	0.346467391	0.348360656	0.350274725	0.352209945
12 7/8	0.349864130	0.351775956	0.353708791	0.355662983
13	0.353260870	0.355191257	0.357142857	0.359116022
13 1/8	0.356657609	0.358606557	0.360576923	0.362569061
13 1/4	0.360054348	0.362021858	0.364010989	0.366022099
13 3/8	0.363451087	0.365437158	0.367445055	0.369475138
13 1/2	0.366847826	0.368852459	0.370879121	0.372928177
13 5/8	0.370244565	0.372267760	0.374313187	0.376381215
13 3/4	0.373641304	0.375683060	0.377747253	0.379834254
13 7/8	0.377038043	0.379098361	0.381181319	0.383287293
14	0.380434783	0.382513661	0.384615385	0.386740331
14 1/8	0.383831522	0.385928962	0.388049451	0.390193370
14 1/4	0.387228261	0.389344262	0.391483516	0.393646409
14 3/8	0.390625000	0.392759563	0.394917582	0.397099448
14 1/2	0.394021739	0.396174863	0.398351648	0.400552486
14 5/8	0.397418478	0.399590164	0.401785714	0.404005525
14 3/4	0.400815217	0.403005464	0.405219780	0.407458564
14 7/8	0.404211957	0.406420765	0.408653846	0.410911602
15	0.407608696	0.409636066	0.412087912	0.414364641
15 1/8	0.411005435	0.413251366	0.415521978	0.417817680
15 1/4	0.414402174	0.416666667	0.418956044	0.421270718
15 3/8	0.417798913	0.420081967	0.422390110	0.424723757
15 1/2	0.421195652	0.423497268	0.425824176	0.428176796
15 5/8	0.424592391	0.426912568	0.429258242	0.431629834
15 3/4	0.427989130	0.430327869	0.432692308	0.435082873
15 7/8	0.431385870	0.433743169	0.436126374	0.438535912
16	0.434782609	0.437158470	0.439560440	0.441988950
16 1/8	0.438179348	0.440573770	0.442994505	0.445441989
16 1/4	0.441576087	0.443989071	0.446428571	0.448895028
16 3/8	0.444972826	0.447404372	0.449862637	0.452348066
16 1/2	0.448369565	0.450819672	0.453296703	0.455801105
16 7/8	0.451766304	0.454234973	0.456730769	0.459254144

TABLE 2—Continued

[Decimal for one day's interest on \$1,000 at various rates of interest, payable semiannually or on a semiannual basis, in regular years of 365 days and in years of 366 days (to determine applicable number of days, see table 1.)]

Rate per annum (percent)	Half-year of 184 days	Half-year of 183 days	Half-year of 182 days	Half-year of 181 days
16¾	0.455163043	0.457650273	0.460164835	0.462707182
16⅞	0.458559783	0.461065574	0.463598901	0.466160221
17	0.461956522	0.464480874	0.467032967	0.469613260
17⅛	0.465353261	0.467896175	0.470467033	0.473066298
17¼	0.468750000	0.471311475	0.473901099	0.476519337
17⅝	0.472146739	0.474726776	0.477335165	0.479972376
17¾	0.475543478	0.478142077	0.480769231	0.483425414
17⅞	0.478940217	0.481557377	0.484203297	0.486878453
17¾	0.482336957	0.484972678	0.487637363	0.490331492
17⅞	0.485733696	0.488387978	0.491071429	0.493784530
18	0.489130435	0.491803279	0.494505495	0.497237569
18⅛	0.492527174	0.495218579	0.497939560	0.500690608
18¼	0.495923913	0.498633880	0.501373626	0.504143646
18⅝	0.499320652	0.502049180	0.504807692	0.507596685
18¾	0.502717391	0.505464481	0.508241758	0.511049724
18⅞	0.506114130	0.508879781	0.511675824	0.514502762
18¾	0.509510870	0.512295082	0.515109890	0.517955801
18⅞	0.512907609	0.515710383	0.518543956	0.521408840
19	0.516304348	0.519125683	0.521978022	0.524861878
19⅛	0.519701087	0.522540984	0.525412088	0.528314917
19¼	0.523097826	0.525956284	0.528846154	0.531767956
19⅝	0.526494565	0.529371585	0.532280220	0.535220994
19¾	0.529891304	0.532786885	0.535714286	0.538674033
19⅞	0.533288043	0.536202186	0.539148352	0.542127072
19¾	0.536684783	0.539617486	0.542582418	0.545580110
19⅞	0.540081522	0.543032787	0.546016484	0.549033149
20	0.543478261	0.546448087	0.549450549	0.552486188

3. *Short First Payment Period.* In cases where the first interest payment period for a Treasury fixed-principal security covers less than a full half-year period (a "short coupon"), we multiply the daily interest decimal by the number of days from, but not including, the issue date to, and including, the first interest payment date. This calculation results in the amount of the interest payable per \$1,000 par amount. In cases where the par amount of securities is a multiple of \$1,000, we multiply the appropriate multiple by the unrounded interest payment amount per \$1,000 par amount.

Example

A 2-year note paying 8½% interest was issued on July 2, 1990, with the first interest payment on December 31, 1990. The number of days in the full half-year period of June 30 to December 31, 1990, was 184 (See Table 1.). The number of days for which interest actually accrued was 182 (not including July 2, but including December 31). The daily interest decimal, \$0.227581522 (See Table 2, line for 8½%, under the column for half-year of 184 days.), was multiplied by 182, resulting in a payment of \$41.419837004 per \$1,000. For \$20,000 of these notes, \$41.419837004 would be multiplied by 20, resulting in a payment of \$828.39674008 (\$828.40).

4. *Long First Payment Period.* In cases where the first interest payment period for a bond

or note covers more than a full half-year period (a "long coupon"), we multiply the daily interest decimal by the number of days from, but not including, the issue date to, and including, the last day of the fractional period that ends one full half-year before the interest payment date. We add that amount to the regular interest amount for the full half-year ending on the first interest payment date, resulting in the amount of interest payable for \$1,000 par amount. In cases where the par amount of securities is a multiple of \$1,000, the appropriate multiple should be applied to the unrounded interest payment amount per \$1,000 par amount.

Example

A 5-year 2-month note paying 7½% interest was issued on December 3, 1990, with the first interest payment due on August 15, 1991. Interest for the regular half-year portion of the payment was computed to be \$39.375 per \$1,000 par amount. The fractional portion of the payment, from December 3 to February 15, fell in a 184-day half-year (August 15, 1990, to February 15, 1991). Accordingly, the daily interest decimal for 7½% was \$0.213994565. This decimal, multiplied by 74 (the number of days from but not including December 3, 1990, to and including February 15), resulted in interest for the fractional portion of

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\$15.835597810. When added to \$39.375 (the normal interest payment portion ending on August 15, 1991), this produced a first interest payment of \$55.210597810, or \$55.21 per \$1,000 par amount. For \$7,000 par amount of these notes, \$55.210597810 would be multiplied by 7, resulting in an interest payment of \$386.47184670 (\$386.47).

B. Treasury Inflation-Protected Securities

1. *Indexing Process.* We pay interest on marketable Treasury inflation-protected securities on a semiannual basis. We issue inflation-protected securities with a stated rate of interest that remains constant until maturity. Interest payments are based on the security's inflation-adjusted principal at the time we pay interest. We make this adjustment by multiplying the par amount of the security by the applicable Index Ratio.

2. *Index Ratio.* The numerator of the Index Ratio, the Ref CPI_{Date}, is the index number applicable for a specific day. The denominator of the Index Ratio is the Ref CPI applicable for the original issue date. However, when the dated date is different from the original issue date, the denominator is the

Ref CPI applicable for the dated date. The formula for calculating the Index Ratio is:

$$\text{Index Ratio}_{\text{Date}} = \frac{\text{Ref CPI}_{\text{Date}}}{\text{Ref CPI}_{\text{Issue Date}}}$$

Where Date = valuation date

3. *Reference CPI.* The Ref CPI for the first day of any calendar month is the CPI for the third preceding calendar month. For example, the Ref CPI applicable to April 1 in any year is the CPI for January, which is reported in February. We determine the Ref CPI for any other day of a month by a linear interpolation between the Ref CPI applicable to the first day of the month in which the day falls (in the example, January) and the Ref CPI applicable to the first day of the next month (in the example, February). For interpolation purposes, we truncate calculations with regard to the Ref CPI and the Index Ratio for a specific date to six decimal places, and round to five decimal places.

Therefore the Ref CPI and the Index Ratio for a particular date will be expressed to five decimal places.

(i) The formula for the Ref CPI for a specific date is:

$$\text{Ref CPI}_{\text{Date}} = \text{Ref CPI}_M + \frac{t-1}{D} [\text{Ref CPI}_{M+1} - \text{Ref CPI}_M]$$

Where Date = valuation date

D = the number of days in the month in which Date falls

t = the calendar day corresponding to Date

CPI_M = CPI reported for the calendar month M by the Bureau of Labor Statistics

Ref CPI_M = Ref CPI for the first day of the calendar month in which Date falls, e.g., Ref CPI_{April 1} is the CPI_{January}

Ref CPI_{M+1} = Ref CPI for the first day of the calendar month immediately following Date

(ii) For example, the Ref CPI for April 15, 1996 is calculated as follows:

$$\text{Ref CPI}_{\text{April 15, 1996}} = \text{Ref CPI}_{\text{April 1, 1996}} + \frac{14}{30} [\text{Ref CPI}_{\text{May 1, 1996}} - \text{Ref CPI}_{\text{April 1, 1996}}]$$

where D = 30, t = 15

Ref CPI_{April 1, 1996} = 154.40, the non-seasonally adjusted CPI-U for January 1996.

Ref CPI_{May 1, 1996} = 154.90, the non-seasonally adjusted CPI-U for February 1996.

(iii) Putting these values in the equation in paragraph (ii) above:

$$\text{Ref CPI}_{\text{April 15, 1996}} = 154.40 + \frac{14}{30} [154.90 - 154.40]$$

$$\text{Ref CPI}_{\text{April 15, 1996}} = 154.63333333$$

This value truncated to six decimals is 154.633333; rounded to five decimals it is 154.63333.

(iv) To calculate the Index Ratio for April 16, 1996, for an inflation-protected security issued on April 15, 1996, the Ref CPI_{April 16, 1996} must first be calculated. Using the same values in the equation above except that t=16, the Ref CPI_{April 16, 1996} is 154.65000.

The Index Ratio for April 16, 1996 is:

$$\text{Index Ratio}_{\text{April 16, 1996}} = 154.65000/154.63333 = 1.000107803.$$

This value truncated to six decimals is 1.000107; rounded to five decimals it is 1.00011.

4. Index Contingencies.

(i) If a previously reported CPI is revised, we will continue to use the previously reported (unrevised) CPI in calculating the principal value and interest payments.

If the CPI is rebased to a different year, we will continue to use the CPI based on the base reference period in effect when the security was first issued, as long as that CPI continues to be published.

(ii) We will replace the CPI with an appropriate alternative index if, while an inflation-protected security is outstanding, the applicable CPI is:

- Discontinued,
- In the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security, or
- In the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security.

(iii) If we decide to substitute an alternative index we will consult with the Bureau of Labor Statistics or any successor agency. We will then notify the public of the substitute index and how we will apply it. Determinations of the Secretary in this regard will be final.

(iv) If the CPI for a particular month is not reported by the last day of the following month, we will announce an index number based on the last available twelve-month change in the CPI. We will base our calculations of our payment obligations that rely on that month's CPI on the index number we announce.

(a) For example, if the CPI for month M is not reported timely, the formula for calculating the index number to be used is:

$$\text{CPI}_M = \text{CPI}_{M-1} \times \left[\frac{\text{CPI}_{M-1}}{\text{CPI}_{M-13}} \right]^{1/12}$$

(b) Generalizing for the last reported CPI issued N months prior to month M:

$$\text{CPI}_M = \text{CPI}_{M-N} \times \left[\frac{\text{CPI}_{M-N}}{\text{CPI}_{M-N-12}} \right]^{N/12}$$

(c) If it is necessary to use these formulas to calculate an index number, we will use that number for all subsequent calculations that rely on the month's index number. We will not replace it with the actual CPI when it is reported, except for use in the above formulas. If it becomes necessary to use the above formulas to derive an index number, we will use the last CPI that has been reported to calculate CPI numbers for months for which the CPI has not been reported timely.

5. *Computation of Interest for a Regular Half-Year Payment Period.* Interest on marketable Treasury inflation-protected securities is payable on a semiannual basis. The regular interest payment period is a full half-year or six calendar months. Examples of half-year periods are January 15 to July 15, and April 15 to October 15. An interest payment will be a fixed percentage of the value of the inflation-adjusted principal, in current dollars, for the date on which it is paid. We will calculate interest payments by multiplying one-half of the specified annual interest rate for the inflation-protected securities by the inflation-adjusted principal for the interest payment date.

Specifically, we compute a semiannual interest payment on the basis of one-half of one year's interest regardless of the actual number of days in the half-year.

Example

A 10-year inflation-protected note paying 3⁷/₈% interest was issued on January 15, 1999, with the first interest payment on July 15, 1999. The Ref CPI on January 15, 1999 (Ref CPI_{IssueDate}) was 164, and the Ref CPI on July 15, 1999 (Ref CPI_{Date}) was 166.2. For a par amount of \$100,000, the inflation-adjusted principal on July 15, 1999, was $(166.2/164) \times \$100,000$, or \$101,341. This amount was multiplied by .03875/2, or .019375, resulting in a payment of \$1,963.48.

C. Accrued Interest

1. You will have to pay accrued interest on a Treasury bond or note when interest accrues prior to the issue date of the security. Because you receive a full interest payment despite having held the security for only a portion of the interest payment period, you must compensate us through the payment of accrued interest at settlement.

2. For a Treasury fixed-principal security, if accrued interest covers a fractional portion of a full half-year period, the number of days in the full half-year period and the stated interest rate will determine the daily interest decimal to use in computing the accrued interest. We multiply the decimal by the number of days for which interest has accrued.

3. If a reopened bond or note has a long first interest payment period (a "long coupon"), and the dated date for the reopened issue is less than six full months before the first interest payment, the accrued interest will fall into two separate half-year periods. A separate daily interest decimal must be multiplied by the respective number of days in each half-year period during which interest has accrued.

4. We round all accrued interest computations to five decimal places for a \$1,000 par amount, using normal rounding procedures. We calculate accrued interest for a par amount of securities greater than \$1,000 by applying the appropriate multiple to accrued interest payable for \$1,000 par amount, rounded to five decimal places.

5. For an inflation-protected security, we calculate accrued interest as shown in section III, paragraphs A and B of this appendix.

Examples. (1) *Treasury Fixed-Principal Securities—(i) Involving One Half-Year:* A note paying interest at a rate of 6¼%, originally issued on May 15, 2000, as a 5-year note with a first interest payment date of November 15, 2000, was reopened as a 4-year 9-month note on August 15, 2000. Interest had accrued for 92 days, from May 15 to August 15. The regular interest period from May 15 to November 15, 2000, covered 184 days. Accordingly, the daily interest decimal, \$0.183423913, multiplied by 92, resulted in accrued interest payable of \$16.874999996, or \$16.87500, for each \$1,000 note purchased. If the notes have a par amount of \$150,000, then 150 is multiplied by \$16.87500, resulting in an amount payable of \$2,531.25.

(2) *Involving Two Half-Years:*

A 10¾% bond, originally issued on July 2, 1985, as a 20-year 1-month bond, with a first interest payment date of February 15, 1986, was reopened as a 19-year 10-month bond on November 4, 1985. Interest had accrued for 44 days, from July 2 to August 15, 1985, during a 181-day half-year (February 15 to August 15); and for 81 days, from August 15 to November 4, during a 184-day half-year (August 15, 1985, to February 15, 1986). Accordingly, \$0.296961326 was multiplied by 44, and \$0.292119565 was multiplied by 81, resulting in products of \$13.066298344 and \$23.661684765 which, added together, resulted in accrued interest payable of \$36.727983109, or \$36.72798, for each \$1,000 bond purchased. If the bonds have a par amount of \$11,000, then 11 is multiplied by \$36.72798, resulting in an amount payable of \$404.00778 (\$404.01).

II. FORMULAS FOR CONVERSION OF FIXED-PRINCIPAL SECURITY YIELDS TO EQUIVALENT PRICES

Definitions

P = price per 100 (dollars), rounded to six places, using normal rounding procedures.

C = the regular annual interest per \$100, payable semiannually, e.g., 6.125 (the decimal equivalent of a 6½% interest rate).

i = nominal annual rate of return or yield to maturity, based on semiannual interest payments and expressed in decimals, e.g., .0719.

n = number of full semiannual periods from the issue date to maturity, except that, if the issue date is a coupon frequency date, n will be one less than the number of full semiannual periods remaining to maturity. Coupon frequency dates are the two semiannual dates based on the maturity date of each note or bond issue. For example, a security maturing on November 15, 2015, would have coupon frequency dates of May 15 and November 15.

r = (1) number of days from the issue date to the first interest payment (regular or short first payment period), or (2) number of days in fractional portion (or "initial short period") of long first payment period.

s = (1) number of days in the full semiannual period ending on the first interest payment date (regular or short first payment period), or (2) number of days in the full semiannual period in which the fractional portion of a long first payment period falls, ending at the onset of the regular portion of the first interest payment.

$v^n = 1 / [1 + (i/2)]^n$ = present value of 1 due at the end of n periods.

$a_n = (1 - v^n) / (i/2) = v + v^2 + v^3 + \dots + v^n$ = present value of 1 per period for n periods

Special Case: If $i = 0$, then $a_n = n$. Furthermore, when $i = 0$, a_n cannot be calculated using the formula: $(1 - v^n)/(i/2)$. In the special case where $i = 0$, a_n must be calculated as the summation of the individual present values (i.e., $v + v^2 + v^3 + \dots + v^n$). Using the summation method will always confirm that $a_n = n$ when $i = 0$.

A = accrued interest.

A. *For fixed-principal securities with a regular first interest payment period:*

Formula:

$P[1 + (r/s)(i/2)] = (C/2)(r/s) + (C/2)a_n + 100v^n$.

Example:

For an 8 ¾% 30-year bond issued May 15, 1990, due May 15, 2020, with interest payments on November 15 and May 15, solve for the price per 100 (P) at a yield of 8.84%.

Definitions:

C = 8.75.

i = .0884.

r = 184 (May 15 to November 15, 1990).

s = 184 (May 15 to November 15, 1990).

n = 59 (There are 60 full semiannual periods, but n is reduced by 1 because the issue date is a coupon frequency date.)

$v^n = 1 / [(1 + .0884 / 2)]^{59}$, or .0779403508.

$a_n = (1 - .0779403508) / .0442$, or 20.8610780353.

Resolution:

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$$P[1 + (r/s)(i/2)] = (C/2)(r/s) + (C/2)a_n + 100v^n$$
 or

$$P[1 + (184/184)(.0884/2)] = (8.75/2)(184/184) + (8.75/2)(20.8610780353) + 100(.0779403508).$$
 (1) $P[1 + .0442] = 4.375 + 91.2672164044 + 7.7940350840.$
 (2) $P[1.0442] = 103.4362514884.$
 (3) $P = 103.4362514884 / 1.0442.$
 (4) $P = 99.057893.$

B. *For fixed-principal securities with a short first interest payment period:*

Formula:

$$P[1 + (r/s)(i/2)] = (C/2)(r/s) + (C/2)a_n + 100v^n.$$

Example:

For an 8½% 2-year note issued April 2, 1990, due March 31, 1992, with interest payments on September 30 and March 31, solve for the price per 100 (P) at a yield of 8.59%.

Definitions:

$C = 8.50.$

$i = .0859.$

$n = 3.$

$r = 181$ (April 2 to September 30, 1990).

$s = 183$ (March 31 to September 30, 1990).

$v^n = 1 / [(1 + .0859 / 2)]^3$, or .8814740565.

$a_n = (1 - .8814740565) / .04295$, or 2.7596261590.

Resolution:

$$P[1 + (r/s)(i/2)] = (C/2)(r/s) + (C/2)a_n + 100v^n \text{ or } P[1 + (181/183)(.0859/2)] = (8.50/2)(181/183) + (8.50/2)(2.7596261590) + 100(.8814740565).$$

$$(1) P[1 + .042480601] = 4.2035519126 + 11.7284111757 + 88.14740565.$$

$$(2) P[1.042480601] = 104.0793687354.$$

$$(3) P = 104.0793687354 / 1.042480601.$$

$$(4) P = 99.838183.$$

C. *For fixed-principal securities with a long first interest payment period:*

Formula:

$$P[1 + (r/s)(i/2)] = [(C/2)(r/s)]v + (C/2)a_n + 100v^n.$$

Example:

For an 8½% 5-year 2-month note issued March 1, 1990, due May 15, 1995, with interest payments on November 15 and May 15 (first payment on November 15, 1990), solve for the price per 100 (P) at a yield of 8.53%.

Definitions:

$C = 8.50.$

$i = .0853.$

$n = 10.$

$r = 75$ (March 1 to May 15, 1990, which is the fractional portion of the first interest payment).

$s = 181$ (November 15, 1989, to May 15, 1990).

$v = 1 / (1 + .0853/2)$, or .9590946147.

$v^n = 1 / (1 + .0853/2)^{10}$, or .658589

$a_n = (1 - .658589) / .04265$, or 8.0049454082.

Resolution:

$$P[1 + (r/s)(i/2)] = [(C/2)(r/s)]v + (C/2)a_n + 100v^n \text{ or } P[1 + (75/181)(.0853/2)] = [(8.50/2)(75/181)].9590946147 + (8.50/2)(8.0049454082) + 100(.6585890783).$$

$$(1) P[1 + .017672652] = 1.6890133062 + 34.0210179850 + 65.8589078339.$$

$$(2) P[1.017672652] = 101.5689391251.$$

$$(3) P = 101.5689391251 / 1.017672652.$$

$$(4) P = 99.805118.$$

D. (1) *For fixed-principal securities reopened during a regular interest period where the purchase price includes predetermined accrued interest.*

(2) *For new fixed-principal securities accruing interest from the coupon frequency date immediately preceding the issue date, with the interest rate established in the auction being used to determine the accrued interest payable on the issue date.*

Formula:

$$(P + A)[1 + (r/s)(i/2)] = C/2 + (C/2)a_n + 100v^n.$$

Where:

$$A = [(s-r)/s](C/2).$$

Example:

For a 9 ½% 10-year note with interest accruing from November 15, 1985, issued November 29, 1985, due November 15, 1995, and interest payments on May 15 and November 15, solve for the price per 100 (P) at a yield of 9.54%. Accrued interest is from November 15 to November 29 (14 days).

Definitions:

$C = 9.50.$

$i = .0954.$

$n = 19.$

$r = 167$ (November 29, 1985, to May 15, 1986).

$s = 181$ (November 15, 1985, to May 15, 1986).

$v^n = 1 / [(1 + .0954/2)]^{19}$, or .4125703996.

$a_n = (1 - .4125703996) / .0477$, or 12.3150859630.

$A = [(181 - 167) / 181](9.50/2)$, or .367403.

Resolution:

$$(P+A)[1 + (r/s)(i/2)] = C/2 + (C/2)a_n + 100v^n \text{ or } (P + .367403)[1 + (167/181)(.0954/2)] = (9.50/2) + (9.50/2)(12.3150859630) + 100(.4125703996).$$

$$(1) (P + .367403)[1 + .044010497] = 4.75 + 58.4966583243 + 41.25703996.$$

$$(2) (P + .367403)[1.044010497] = 104.5036982843.$$

$$(3) (P + .367403) = 104.5036982843 / 1.044010497.$$

$$(4) (P + .367403) = 100.098321.$$

$$(5) P = 100.098321 - .367403.$$

$$(6) P = 99.730918.$$

E. *For fixed-principal securities reopened during the regular portion of a long first payment period:*

Formula:

$$(P + A)[1 + (r/s)(i/2)] = (r's'')(C/2) + C/2 + (C/2)a_n + 100v^n.$$

Where:

$A = AI' + AI,$

$AI' = (r's'')(C/2),$

$AI = [(s-r) / s](C/2),$ and

$r =$ number of days from the reopening date to the first interest payment date,

$s =$ number of days in the semiannual period for the regular portion of the first interest payment period,

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r' = number of days in the fractional portion (or "initial short period") of the first interest payment period.

s'' = number of days in the semiannual period ending with the commencement date of the regular portion of the first interest payment period.

Example:

A 10 $\frac{3}{4}$ % 19-year 9-month bond due August 15, 2005, is issued on July 2, 1985, and reopened on November 4, 1985, with interest payments on February 15 and August 15 (first payment on February 15, 1986), solve for the price per 100 (P) at a yield of 10.47%. Accrued interest is calculated from July 2 to November 4.

Definitions:

C = 10.75.

i = .1047.

n = 39.

r = 103 (November 4, 1985, to February 15, 1986).

s = 184 (August 15, 1985, to February 15, 1986).

r' = 44 (July 2 to August 15, 1985).

s'' = 181 (February 15 to August 15, 1985).

$v^n = 1 / [(1 + .1047 / 2)]^{39}$, or .1366947986.

$a_n = (1 - .1366947986) / .05235$, or 16.4910258142.

$AI' = (44 / 181)(10.75 / 2)$, or 1.306630.

$AI = [(184 - 103) / 184](10.75 / 2)$, or 2.366168.

$A = AI' + AI$, or 3.672798.

Resolution:

$(P + A)[1 + (r/s)(i/2)] = (r'/s'')(C/2) + C/2 + (C/2)a_n + 100v^n$ or

$(P + 3.672798)[1 + (103/184)(.1047/2)] = (44/181)(10.75/2) + 10.75/2 + (10.75/2)(16.4910258142) + 100(.1366947986)$.

(1) $(P + 3.672798)[1 + .02930462] = 1.3066298343 + 5.375 + 88.6392637512 + 13.6694798628$.

(2) $(P + 3.672798)[1.02930462] = 108.9903734482$.

(3) $(P + 3.672798) = 108.9903734482 / 1.02930462$.

(4) $P + 3.672798 = 105.887384$.

(5) $P = 105.887384 - 3.672798$.

(6) $P = 102.214586$.

F. For fixed-principal securities reopened during a short first payment period:

Formula:

$(P + A)[1 + (r/s)(i/2)] = (r'/s)(C/2) + (C/2)a_n + 100v^n$.

Where:

$A = [(r' - r)/s](C/2)$ and

r' = number of days from the original issue date to the first interest payment date.

Example:

For a 10 $\frac{1}{2}$ % 8-year note due May 15, 1991, originally issued on May 16, 1983, and reopened on August 15, 1983, with interest payments on November 15 and May 15 (first payment on November 15, 1983), solve for the price per 100 (P) at a yield of 10.53%. Accrued interest is calculated from May 16 to August 15.

Definitions:

C = 10.50.

i = .1053.

n = 15.

r = 92 (August 15, 1983, to November 15, 1983).

s = 184 (May 15, 1983, to November 15, 1983).

r' = 183 (May 16, 1983, to November 15, 1983).

$v^n = 1 / [(1 + .1053/2)]^{15}$, or .4631696332.

$a_n = (1 - .4631696332) / .05265$, or 10.1962082956.

$A = [(183 - 92) / 184](10.50 / 2)$, or 2.596467.

Resolution:

$(P + A)[1 + (r/s)(i/2)] = (r'/s)(C/2) + (C/2)a_n + 100v^n$ or

$(P + 2.596467)[1 + (92/184)(.1053/2)] = (183/184)(10.50/2) + (10.50/2)(10.1962082956) + 100(.4631696332)$.

(1) $(P + 2.596467)[1 + .026325] = 5.2214673913 + 53.5300935520 + 46.31696332$.

(2) $(P + 2.596467)[1.026325] = 105.0685242633$.

(3) $(P + 2.596467) = 105.0685242633 / 1.026325$.

(4) $(P + 2.596467) = 102.373541$.

(5) $P = 102.373541 - 2.596467$.

(6) $P = 99.777074$.

G. For fixed-principal securities reopened during the fractional portion (initial short period) of a long first payment period:

Formula:

$(P + A)[1 + (r/s)(i/2)] = [(r'/s)(C/2)]v + (C/2)a_n + 100v^n$.

Where:

$A = [(r' - r)/s](C/2)$, and

r = number of days from the reopening date to the end of the short period.

r' = number of days in the short period.

s = number of days in the semiannual period ending with the end of the short period.

Example:

For a 9 $\frac{3}{4}$ % 6-year 2-month note due December 15, 1994, originally issued on October 15, 1988, and reopened on November 15, 1988, with interest payments on June 15 and December 15 (first payment on June 15, 1989), solve for the price per 100 (P) at a yield of 9.79%. Accrued interest is calculated from October 15 to November 15.

Definitions:

C = 9.75.

i = .0979.

n = 12.

r = 30 (November 15, 1988, to December 15, 1988).

s = 183 (June 15, 1988, to December 15, 1988).

r' = 61 (October 15, 1988, to December 15, 1988).

$v = 1 / (1 + .0979/2)$, or .9533342867.

$v^n = [1 / (1 + .0979/2)]^{12}$, or .5635631040.

$a_n = (1 - .5635631040) / .04895$, or 8.9159733613.

$A = [(61 - 30)/183](9.75/2)$, or .825820.

Resolution:

$(P + A)[1 + (r/s)(i/2)] = [(r'/s)(C/2)]v + (C/2)a_n + 100v^n$ or

$(P + .825820)[1 + (30/183)(.0979/2)] = [(61/183)(9.75/2)](.9533342867) + (9.75/2)(8.9159733613) + 100(.5635631040)$.

(1) $(P + .825820)[1 + .00802459] = 1.549168216 + 43.4653701362 + 56.35631040$.

(2) $(P + .825820)[1.00802459] = 101.3708487520$.

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- (3) $(P + .825820) = 101.3708487520 / 1.00802459$.
 (4) $(P + .825820) = 100.563865$.
 (5) $P = 100.563865 - .825820$.
 (6) $P = 99.738045$.

III. FORMULAS FOR CONVERSION OF INFLATION-INDEXED SECURITY YIELDS TO EQUIVALENT PRICES

Definitions

P = unadjusted or real price per 100 (dollars).
 P_{adj} = inflation adjusted price; $P \times \text{Index Ratio}_{\text{Date}}$.

A = unadjusted accrued interest per \$100 original principal.

A_{adj} = inflation adjusted accrued interest; $A \times \text{Index Ratio}_{\text{Date}}$.

SA = settlement amount including accrued interest in current dollars per \$100 original principal; $P_{\text{adj}} + A_{\text{adj}}$.

r = days from settlement date to next coupon date.

s = days in current semiannual period.

i = real yield, expressed in decimals (e.g., 0.0325).

C = real annual coupon, payable semiannually, in terms of real dollars paid on \$100 initial, or real, principal of the security.

n = number of full semiannual periods from issue date to maturity date, except that, if the issue date is a coupon frequency date, n will be one less than the number of full semiannual periods remaining until maturity. Coupon frequency dates are the two semiannual dates based on the maturity date of each note or bond issue. For example, a security maturing on July 15, 2026 would have coupon frequency dates of January 15 and July 15.

$v^n = 1/(1 + i/2)^n$ = present value of 1 due at the end of n periods.

$a_n = (1 - v^n)/(i/2) = v + v^2 + v^3 + \dots + v^n$ = present value of 1 per period for n periods.

Special Case: If $i = 0$, then $a_n = n$. Furthermore, when $i = 0$, a_n cannot be calculated using the formula: $(1 - v^n)/(i/2)$. In the special case where $i = 0$, a_n must be calculated as the summation of the individual present values (i.e., $v + v^2 + v^3 + \dots + v^n$). Using the summation method will always confirm that $a_n = n$ when $i = 0$.

Date = valuation date.

D = the number of days in the month in which Date falls.

t = calendar day corresponding to Date.

CPI = Consumer Price Index number.

CPI_M = CPI reported for the calendar month M by the Bureau of Labor Statistics.

Ref CPI_M = reference CPI for the first day of the calendar month in which Date falls (also equal to the CPI for the third preceding calendar month), e.g., $\text{Ref CPI}_{\text{April } 1}$ is the $\text{CPI}_{\text{January}}$.

Ref CPI_{M+1} = reference CPI for the first day of the calendar month immediately following Date.

$\text{Ref CPI}_{\text{Date}} = \text{Ref CPI}_M - [(t - 1)/D][\text{Ref CPI}_{M+1} - \text{Ref CPI}_M]$.

$\text{Index Ratio}_{\text{Date}} = \text{Ref CPI}_{\text{Date}} / \text{Ref CPI}_{\text{IssueDate}}$.

NOTE: When the Issue Date is different from the Dated Date, the denominator is the $\text{Ref CPI}_{\text{DatedDate}}$.

A. For inflation-indexed securities with a regular first interest payment period:

Formulas:

$$P = \frac{(C/2) + (C/2)a_n + 100v^n}{1 + (r/s)(i/2)} - [(s - r)/s](C/2)$$

$P_{\text{adj}} = P \times \text{Index Ratio}_{\text{Date}}$.

$A = [(s - r)/s] \times (C/2)$.

$A_{\text{adj}} = A \times \text{Index Ratio}_{\text{Date}}$.

$SA = P_{\text{adj}} + A_{\text{adj}}$

$\text{Index Ratio}_{\text{Date}} = \text{Ref CPI}_{\text{Date}} / \text{Ref CPI}_{\text{IssueDate}}$.

Example:

We issued a 10-year inflation-indexed note on January 15, 1999. The note was issued at a discount to yield of 3.898% (real). The note bears a 3 7/8% real coupon, payable on July 15 and January 15 of each year. The base CPI index applicable to this note is 164. (We normally derive this number using the interpolative process described in Appendix B, section I, paragraph B.)

Definitions:

C = 3.875.

i = 0.03898.

n = 19 (There are 20 full semiannual periods but n is reduced by 1 because the issue date is a coupon frequency date.).

r = 181 (January 15, 1999 to July 15, 1999).

s = 181 (January 15, 1999 to July 15, 1999).

$\text{Ref CPI}_{\text{Date}} = 164$.

$\text{Ref CPI}_{\text{IssueDate}} = 164$.

Resolution:

$\text{Index Ratio}_{\text{Date}} = \text{Ref CPI}_{\text{Date}} / \text{Ref CPI}_{\text{IssueDate}} = 164/164 = 1$.

$A = [(181 - 181)/181] \times 3.875/2 = 0$.

$A_{\text{adj}} = 0 \times 1 = 0$.

$v^n = 1/(1 + i/2)^n = 1/(1 + .03898/2)^{19} = 0.692984572$.

$a_n = (1 - v^n)/(i/2) = (1 - 0.692984572) / (.03898/2) = 15.752459107$.

Formula:

$$P = \frac{(C/2) + (C/2)a_n + 100v^n}{1 + (r/s)(i/2)} - [(s-r)/s](C/2)$$

$$P = \frac{(3.875/2) + (3.875/2)(15.752459107) + 100(0.692984572)}{1 + (181/181)(0.03898/2)} - [(181 - 181)/181](3.875/2)$$

$$P = \frac{1.9375 + 30.52038952 + 69.29845720}{1.01949000} - 0$$

$$P = \frac{101.75634672}{1.01949000}$$

$P = 99.811030$.
 $P_{\text{adj}} = P \times \text{Index Ratio}_{\text{Date}}$.
 $P_{\text{adj}} = 99.811030 \times 1 = 99.811030$.
 $SA = P_{\text{adj}} + A_{\text{adj}}$.
 $SA = 99.811030 + 0 = 99.811030$.

NOTE: For the real price (P), we have rounded to six places. These amounts are based on 100 par value.

B. (1) *For inflation-indexed securities reopened during a regular interest period where the purchase price includes predetermined accrued interest.*

(2) *For new inflation-indexed securities accruing interest from the coupon frequency date immediately preceding the issue date, with the interest rate established in the auction being used to determine the accrued interest payable on the issue date.*

Bidding: The dollar amount of each bid is in terms of the par amount. For example, if the Ref CPI applicable to the issue date of the note is 120, and the reference CPI applicable to the reopening issue date is 132, a bid of \$10,000 will in effect be a bid of \$10,000 \times (132/120), or \$11,000.

Formulas:

$$P = \frac{(C/2) + (C/2)a_n + 100v^n}{1 + (r/s)(i/2)} - [(s-r)/s](C/2)$$

$$P_{\text{adj}} = P \times \text{Index Ratio}_{\text{Date}}$$

$$A = [(s-r)/s] \times (C/2)$$

$$A_{\text{adj}} = A \times \text{Index Ratio}_{\text{Date}}$$

$$P = \frac{(C/2) + (C/2)a_n + 100v^n}{1 + (r/s)(i/2)} - [(s-r)/s](C/2)$$

$$P = \frac{(3.625/2) + (3.625/2)(15.225291068) + 100(0.722138438)}{1 + (92/184)(0.0365/2)} - [(184 - 92)/184](3.625/2)$$

$$P = \frac{1.8125 + 27.59584006 + 72.21384380}{1.009125} - (92/184)(1.8125)$$

$$P = \frac{101.62218386}{1.009125} - 0.906250$$

$P = 100.703267 - 0.906250$.
 $P = 99.797017$.
 $P_{\text{adj}} = P \times \text{Index Ratio}_{\text{Date}}$.
 $P_{\text{adj}} = 99.797017 \times 1.01074 = 100.86883696$.
 $P_{\text{adj}} = 100.868837$.
 $A = [(184 - 92)/184] \times 3.625/2 = 0.906250$.
 $A_{\text{adj}} = A \times \text{Index Ratio}_{\text{Date}}$.
 $A_{\text{adj}} = 0.906250 \times 1.01074 = 0.91598313$.
 $A_{\text{adj}} = 0.915983$.
 $SA = P_{\text{adj}} + A_{\text{adj}} = 100.868837 + 0.915983$.

$SA = P_{\text{adj}} + A_{\text{adj}}$.
 $\text{Index Ratio}_{\text{Date}} = \text{Ref CPI}_{\text{Date}}/\text{Ref CPI}_{\text{IssueDate}}$.
Example:

We issued a 3½% 10-year inflation-indexed note on January 15, 1998, with interest payments on July 15 and January 15. For a reopening on October 15, 1998, with inflation compensation accruing from January 15, 1998 to October 15, 1998, and accrued interest accruing from July 15, 1998 to October 15, 1998 (92 days), solve for the price per 100 (P) at a real yield, as determined in the reopening auction, of 3.65%. The base index applicable to the issue date of this note is 161.55484 and the reference CPI applicable to October 15, 1998, is 163.29032.

Definitions:

$C = 3.625$.
 $i = 0.0365$.
 $n = 18$.
 $r = 92$ (October 15, 1998 to January 15, 1999).
 $s = 184$ (July 15, 1998 to January 15, 1999).
 $\text{Ref CPI}_{\text{Date}} = 163.29032$.
 $\text{Ref CPI}_{\text{IssueDate}} = 161.55484$.

Resolution:

$\text{Index Ratio}_{\text{Date}} = \text{Ref CPI}_{\text{Date}}/\text{Ref CPI}_{\text{IssueDate}} = 163.29032/161.55484 = 1.01074$.
 $v^n = 1/(1 + i/2)^n = 1/(1 + .0365/2)^{18} = 0.722138438$.
 $a_n = (1 - v^n)/(i/2) = (1 - 0.722138438)/(0.0365/2) = 15.225291068$.

Formula:

$SA = 101.784820$.

NOTE: For the real price (P), and the inflation-adjusted price (P_{adj}), we have rounded to six places. For accrued interest (A) and the adjusted accrued interest (A_{adj}), we have rounded to six places. These amounts are based on 100 par value.

IV. COMPUTATION OF ADJUSTED VALUES AND PAYMENT AMOUNTS FOR STRIPPED INFLATION-PROTECTED INTEREST COMPONENTS

NOTE: Valuing an interest component stripped from an inflation-protected security at its adjusted value enables this interest component to be interchangeable (fungible) with other interest components that have the same maturity date, regardless of the underlying inflation-protected security from which the interest components were stripped. The adjusted value provides for fungibility of these various interest components when buying, selling, or transferring them or when reconstituting an inflation-protected security.

Definitions:

$c = C/100$ = the regular annual interest rate, payable semiannually, *e.g.*, .03625 (the decimal equivalent of a 3%% interest rate)

Par = par amount of the security to be stripped

Ref $CPI_{IssueDate}$ = reference CPI for the original issue date (or dated date, when the dated date is different from the original issue date) of the underlying (unstripped) security

Ref CPI_{Date} = reference CPI for the maturity date of the interest component

AV = adjusted value of the interest component

PA = payment amount at maturity by Treasury

Formulas:

$AV = \text{Par}(C/2)(100/\text{Ref } CPI_{IssueDate})$ (rounded to 2 decimals with no intermediate rounding)

$PA = AV(\text{Ref } CPI_{Date}/100)$ (rounded to 2 decimals with no intermediate rounding)

Example:

A 10-year inflation-protected note paying 3½% interest was issued on January 15, 1999, with the second interest payment on January 15, 2000. The Ref CPI of January 15, 1999 (Ref $CPI_{IssueDate}$) was 164.00000, and the Ref CPI on January 15, 2000 (Ref CPI_{Date}) was 168.24516. Calculate the adjusted value and the payment amount at maturity of the interest component.

Definitions:

$c = .03875$

Par = \$1,000,000

Ref $CPI_{IssueDate} = 164.00000$

Ref $CPI_{Date} = 168.24516$

Resolution:

For a par amount of \$1 million, the adjusted value of each stripped interest component was $\$1,000,000(.03875/2)(100/164.00000)$, or \$11,814.02 (no intermediate rounding).

For an interest component that matured on January 15, 2000, the payment amount was $\$11,814.02(168.24516/100)$, or \$19,876.52 (no intermediate rounding).

V. COMPUTATION OF PURCHASE PRICE, DISCOUNT RATE, AND INVESTMENT RATE (COUPON-EQUIVALENT YIELD) FOR TREASURY BILLS

A. *Conversion of the discount rate to a purchase price for Treasury bills of all maturities:*

Formula:

$$P = 100(1 - dr/360).$$

Where:

d = discount rate, in decimals.

r = number of days remaining to maturity.

P = price per 100 (dollars).

Example:

For a bill issued November 24, 1989, due February 22, 1990, at a discount rate of 7.610%, solve for price per 100 (P).

Definitions:

$d = .07610$.

$r = 90$ (November 24, 1989 to February 22, 1990).

Resolution:

$$P = 100(1 - dr/360).$$

$$(1) P = 100[1 - (.07610)(90)/360].$$

$$(2) P = 100(1 - .019025).$$

$$(3) P = 100(.980975).$$

$$(4) P = 98.097500.$$

NOTE: Purchase prices per \$100 are rounded to six decimal places, using normal rounding procedures.

B. *Computation of purchase prices and discount amounts based on price per \$100, for Treasury bills of all maturities:*

1. To determine the purchase price of any bill, divide the par amount by 100 and multiply the resulting quotient by the price per \$100.

Example:

To compute the purchase price of a \$10,000 13-week bill sold at a price of \$98.098000 per \$100, divide the par amount (\$10,000) by 100 to obtain the multiple (100). That multiple times 98.098000 results in a purchase price of \$9,809.80.

2. To determine the discount amount for any bill, subtract the purchase price from the par amount of the bill.

Example:

For a \$10,000 bill with a purchase price of \$9,809.80, the discount amount would be \$190.20, or $\$10,000 - \$9,809.80$.

C. *Conversion of prices to discount rates for Treasury bills of all maturities:*

Formula:

$$d = \left[\frac{100 - P}{100} \times \frac{360}{r} \right]$$

Where:

P = price per 100 (dollars).

d = discount rate.

r = number of days remaining to maturity.

Example:

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For a 26-week bill issued December 30, 1982, due June 30, 1983, with a price of \$95.934567, solve for the discount rate (d).

Definitions:

P = 95.934567.

r = 182 (December 30, 1982, to June 30, 1983).

Resolution:

$$d = \left[\frac{100 - P}{100} \times \frac{360}{r} \right]$$

$$d = \left[\frac{100 - 95.934567}{100} \times \frac{360}{182} \right]$$

(2) d = [.04065433 × 1.978021978].

(3) d = .080415158.

(4) d = 8.042%.

NOTE: Prior to April 18, 1983, we sold all bills in price-basis auctions, in which discount rates calculated from prices were rounded to three places, using normal rounding procedures. Since that time, we have sold bills only on a discount rate basis.

D. Calculation of investment rate (coupon-equivalent yield) for Treasury bills:

1. *For bills of not more than one half-year to maturity:*

Formula:

$$i = \left[\frac{100 - P}{P} \times \frac{y}{r} \right]$$

Where:

i = investment rate, in decimals.

P = price per 100 (dollars).

r = number of days remaining to maturity.

y = number of days in year following the issue date; normally 365 but, if the year following the issue date includes February 29, then y is 366.

Example:

For a cash management bill issued June 1, 1990, due June 21, 1990, with a price of \$99.559444 (computed from a discount rate of 7.930%), solve for the investment rate (i).

Definitions:

P = 99.559444.

r = 20 (June 1, 1990, to June 21, 1990).

y = 365.

Resolution:

$$i = \frac{-b + \sqrt{b^2 - 4ac}}{2a}$$

$$(1) i = \frac{-997260274 + \sqrt{(997260274)^2 - 4[(.248630137)(-.083834607)]}}{2(.248630137)}$$

$$(2) i = \frac{-997260274 + \sqrt{994528054 + .083375239}}{.497260274}$$

$$i = \left[\frac{100 - P}{P} \times \frac{y}{r} \right]$$

$$(1) i = \left[\frac{100 - 99.559444}{99.559444} \times \frac{365}{20} \right]$$

(2) i = [.004425 × 18.25].

(3) i = .080756.

(4) i = 8.076%.

2. For bills of more than one half-year to maturity:

Formula:

$$P [1 + (r - y/2)(i/y)] (1 + i/2) = 100.$$

This formula must be solved by using the quadratic equation, which is:

$$ax^2 + bx + c = 0.$$

Therefore, rewriting the bill formula in the quadratic equation form gives:

$$\left[\frac{r}{2y} - .25 \right] i^2 + \left(\frac{r}{y} \right) i + \left(\frac{P - 100}{P} \right) = 0$$

and solving for "i" produces:

$$i = \frac{-b + \sqrt{b^2 - 4ac}}{2a}$$

Where:

i = investment rate in decimals.

b = r/y.

a = (r/2y) - .25.

c = (P - 100)/P.

P = price per 100 (dollars).

r = number of days remaining to maturity.

y = number of days in year following the issue date; normally 365, but if the year following the issue date includes February 29, then y is 366.

Example:

For a 52-week bill issued June 7, 1990, due June 6, 1991, with a price of \$92.265000 (computed from a discount rate of 7.65%), solve for the investment rate (i).

Definitions:

r = 364 (June 7, 1990, to June 6, 1991).

y = 365.

P = 92.265000.

b = 364 / 365, or .997260274.

a = (364 / 730) - .25, or .248630137.

c = (92.265 - 100) / 92.265, or -.083834607.

Resolution:

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- (3) $i = (-.997260274 + 1.038221216) / .497260274$.
- (4) $i = .040960942 / .497260274$.
- (5) $i = .082373244$ or
- (6) $i = 8.237\%$.

[69 FR 45202, July 28, 2004, as amended at 69 FR 52967, Aug. 30, 2004; 69 FR 53622, Sept. 2, 2004]

APPENDIX C TO PART 356—INVESTMENT CONSIDERATIONS

I. INFLATION-PROTECTED SECURITIES

A. Principal and Interest Variability

An investment in securities with principal or interest determined by reference to an inflation index involves factors not associated with an investment in a fixed-principal security. Such factors include the possibility that:

- The inflation index may be subject to significant changes,
- changes in the index may or may not correlate to changes in interest rates generally or with changes in other indices,
- the resulting interest may be greater or less than that payable on other securities of similar maturities, and
- in the event of sustained deflation, the amount of the semiannual interest payments, the inflation-adjusted principal of the security, and the value of stripped components will decrease. However, if at maturity the inflation-adjusted principal is less than a security's par amount, we will pay an additional amount so that the additional amount plus the inflation-adjusted principal equals the par amount. Regardless of whether or not we pay such an additional amount, we will always base interest payments on the inflation-adjusted principal as of the interest payment date. If a security has been stripped, we will pay any such additional amount at maturity to holders of principal components only. (See § 356.30.)

B. Trading in the Secondary Market

The Treasury securities market is the largest and most liquid securities market in the world. The market for Treasury inflation-protected securities, however, may not be as active or liquid as the market for Treasury fixed-principal securities. In addition, Treasury inflation-protected securities may not be as widely traded or as well understood as Treasury fixed-principal securities. Lesser liquidity and fewer market participants may result in larger spreads between bid and asked prices for inflation-protected securities than the bid-asked spreads for fixed-principal securities with the same time to maturity. Larger bid-asked spreads normally result in higher transaction costs and/or lower overall returns. The liquidity of an inflation-protected security may be enhanced

over time as we issue additional amounts or more entities participate in the market.

C. Tax Considerations

Treasury inflation-protected securities and the stripped interest and principal components of these securities are subject to specific tax rules provided by Treasury regulations issued under sections 1275(d) and 1286 of the Internal Revenue Code of 1986, as amended.

D. Indexing Issues

While the Consumer Price Index ("CPI") measures changes in prices for goods and services, movements in the CPI that have occurred in the past do not necessarily indicate changes that may occur in the future.

The calculation of the index ratio incorporates an approximate three-month lag, which may have an impact on the trading price of the securities, particularly during periods of significant, rapid changes in the index.

The CPI is reported by the Bureau of Labor Statistics, a bureau within the Department of Labor. The Bureau of Labor Statistics operates independently of Treasury and, therefore, we have no control over the determination, calculation, or publication of the index. For a discussion of how we will apply the CPI in various situations, see Appendix B, Section I, Paragraph B of this part. In addition, for a discussion of actions that we would take in the event the CPI is: discontinued; in the judgment of the Secretary, fundamentally altered in a manner materially adverse to the interests of an investor in the security; or, in the judgment of the Secretary, altered by legislation or Executive Order in a manner materially adverse to the interests of an investor in the security, see Appendix B, Section I, Paragraph B.4 of this part.

APPENDIX D TO PART 356—DESCRIPTION OF THE CONSUMER PRICE INDEX

The Consumer Price Index ("CPI") for purposes of inflation-protected securities is the non-seasonally adjusted U.S. City Average All Items Consumer Price Index for All Urban Consumers. It is published monthly by the Bureau of Labor Statistics (BLS), a bureau within the Department of Labor. The CPI is a measure of the average change in consumer prices over time in a fixed market basket of goods and services. This market basket includes food, clothing, shelter, fuels, transportation, charges for doctors' and dentists' services, and drugs.

In calculating the index, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The BLS periodically updates

the contents of the market basket of goods and services, and the weights assigned to the various items, to take into account changes in consumer expenditure patterns.

The CPI is expressed in relative terms in relation to a time base reference period for which the level is set at 100. For example, if the CPI for the 1982–84 reference period is 100.0, an increase of 16.5 percent from that period would be shown as 116.5. The CPI for a particular month is released and published during the following month. From time to time, the CPI is rebased to a more recent base reference period. We provide the base reference period for a particular inflation-protected security on the auction announcement for that security.

Further details about the CPI may be obtained by contacting the BLS.